No. 78-1935

In the

Supreme Court of the United States

OCTOBER TERM, 1978.

JOHN O. BUTLER COMPANY,

Petitioner,

vs.

ROBERT M. LAFF,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE ILLINOIS SUPREME COURT

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PETITION FOR A WRIT OF CERTIORARI TO THE ILLINOIS SUPREME COURT

John O. Butler Company, hereby petitions that a Writ of Certiorari be issued to review the Judgment and Opinion of the Appellate Court of Illinois, First District, Fifth Division, entered on October 6, 1978, from which a Petition for Leave to Appeal to the Illinois Supreme Court was refused on April 27, 1979.

OPINIONS BELOW

The refusal of the Illinois Supreme Court to grant Petitioner's Petition for Leave to Appeal is herewith attached and is found in the Appendix hereto at App. 1. The modified opinion and supplemental opinion of the Illinois Appellate Court are reported at 64 Ill. App. 3d.

603, 381 N.E. 2d. 423, and are found in the Appendix beginning at App. 1. The order of the Appellate Court denying rehearing is found at App. 34. The Judgment Orders of the trial court are found in the Appendix beginning at App. 35.

JURISDICTION

The order refusing Petitioner's Petition for Leave to Appeal to the Illinois Supreme Court was entered on March 29, 1979. No rehearing was sought. A copy of the order denying the Petition is printed in the Appendix at App. 1. The jurisdiction of the Court is invoked under 28 U.S.C. §1257(3).

QUESTIONS PRESENTED

1. Does federal law preclude the enforcement of a judgment by the trial court to establish perpetual liability, on the basis of an oral agreement, for the payment of royalties by the manufacturer of a product to the owner of an alleged trade secret embodied in the product, where the trail court refused to consider proof, offered before final judgment, that the trade secret was publicly known during the period for which damages are sought?

2. Does federal policy mandating free accessibility to the public of matter unprotected by a valid patent or valid claim to copyright, require that an agreement to license a trade secret be terminable, and damages based upon use thereof be limited, upon proof by the licensee that the alleged trade secret was in or has entered the public domain during the term for which the alleged secret is being enforced?

CONSTITUTION AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States (quoted in pertinent part) Article I, §8.

The Congress shall have Power . . .

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . .

Article VI, §2.

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land; . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

STATEMENT OF THE MANNER IN WHICH FEDERAL QUESTIONS WERE RAISED

Questions 1 and 2 relate to the propriety of assessing damages for the termination of an oral agreement, leading to a judgment of liability by the trial judge as establishing perpetual liability for the use of a purported trade secret for so long as items allegedly incorporating the trade secret are manufactured and sold, where the trial court has refused to receive or consider evidence [C. 190-341]* offered to show that the alleged secret was in the public domain. The evidence so offered was presented while the trial court had retained jurisdiction for the purpose of assessing damages.

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* Reference to the Record on Appeal will be designated as [C. ....]; reference to the Trial Transcript will be designated as [Tr. ....]; reference to the Transcript of the Hearing held on December 14, 1976 will be designated as [H Tr. ....]. Reference to the Appendix hereto will be designated [App. ....].

These questions were first raised before the trial court by the filing of a motion [C. 137-40] and brief [C. 144-189] in support thereof arguing, *inter alia,* that blanket application of *Warner-Lambert* v. *Reynolds,* 178 F. Supp. 655 (S.D. N.Y. 1959), by the trial judge was contrary to the teachings of this court in *Lear* v. *Adkins,* 395 U.S. 653 (1969). In pertinent part, the brief reads, at pages C. 162-63:

"In an attempt to buttress its position, plaintiff has relied upon the decision in *Warner-Lambert Company* v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S.D.N.Y. 1959). It is clear that the vitality of the *Warner-Lambert* decision has been entirely undermined by the Supreme Court's pronouncements in *Lear* v. *Adkins,* 395 U.S. 653 (1969), wherein the Supreme Court held that royalties need not be paid on ideas dedicated to the public. In *Bimba Manufacturing Company* v. *Starz Cylinder Company,* 120 Ill. App. 2d. 170, 256 N.E. 2d 337 (Ill. App. Court 1970), the court held:

'Plaintiff, without obtaining a patent on [its invention] distributed its cylinders in a way that anyone could cut one, disassemble it, and learn how it could be manufactured. In sum, plaintiff had no trade secret concerning its cylinders.' (*Supra* at 364).

"*Bimba* goes further to parallel the reasoning in the *Lear* v. *Adkins* decision to hold that payment may not be required for the manufacture of an unprotected article. As was stated in *Cook-Master* v. *Nicro Steel Products,* 339 Ill. App. 519, 90 NE 2d 657, 663 (Ill. App. Ct. 1950):

'The rule stated in 4 Restatement of Law, Torts, p.5, logically applies to these counts: "The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge

in an industry cannot be appropriated by one as his secret. *Matters which are completely disclosed by the goods which one markets cannot be his secret.*' (Emphasis ours)

"In 'Intellectual Property Law for the General Counselor,' at pages 6-8, Edward Vandenburgh, a noted authority in the area of Intellectual Property states:

'Can you require a buyer or licensee to pay for the use of trade secrets so long as he uses it, even if it later becomes publically known? This is what the sellers of Listerine had to do in *Warner-Lambert Pharmaceutical Co., Inc.* v. *John J. Reynolds, Inc.,* 178 F. Supp. 655 (S.D.N.Y. 1959), aff'd 280 F. 2d. 197 (2nd Cir. 1960). Later the U.S. Supreme Court said that it is improper to collect royalties after a patent has expired, *Lear, Inc.* v. *Adkins,* [sic] 395 U.S. 653, 23 L.Ed. 2d 610 (1969). It is not believed that Listerine would be good law in view of the attitude of the Supreme Court in the Lear case. Accordingly, providing for payment of royalties so long as the trade secret is used, regardless of whether it remains a secret is hazardous.' "

Oral argument on the motion was heard before the trial court on Decemmber 14, 1976, at which time Butler urged that the offers of proof made by Butler showed that the trade secret claimed by Laff was actually in the public domain prior to the agreement of the parties, and that this fact should properly limit the damages, if any, incurred by Butler stemming from the termination of the agreement with Laff.

In the Illinois Appellate Court, Butler's brief, at pages 30-35 and 50-51, and Butler's reply brief at page 16-19 and 39-45 presented these same issues for appellate review.

In particular, at pages 16-17 of Butler's Reply Brief, the importance of determining whether Laff's secret was in the public domain is set forth:

"Plaintiff's nearsighted misinterpretation of the prior art contained in defendant's Offers of Proof [citation omitted] ignores reality. In an article entitled "Limitations of the Law of Trade Secrets", found at pp. 162-176 of the 1971 Journal of the Patent Office Society, the importance of considering an alleged trade secret against the background of applicable prior art is highlighted at page 171:

'. . . it is necessary and proper to consider the state of the art as manifested in the existing literature and as ascertained from experts in the industry in order to determine whether or not the alleged trade secrets are in fact trade secrets or matters known in the trade and previously published.'

"The Bender patent [citation omitted], issued in 1937, states:

'The solution may contain only one of these dyes, but it is preferred that it contains both. *The use of both . . . dyes . . . gives . . . a more pronounced color reaction with the stains one the teeth than either one alone* (Emphasis ours).'

"Other two-dye disclosants are taught in the 1945 Raybin article [citation omitted].

"Most interesting to note is the fact that even plaintiff's characterization of the prior art is completely and fully described by the language found in the judgment order at paragraph H, namely, 'The formula . . . consists as to active ingredients, of a combination of dyes. . .'. Plaintiff argues that its 'secret' is not taught by the prior art, but presents and attempts to protect a judgment order with language which seemingly could be construed to prevent manufactur-

ing of *any* disclosants taught in the prior art if made under the trademark Red-Cote."

At an oral hearing before the Illinois Appellate Court, held on April 14, 1978, the issues were argued to a panel of the Illinois Appellate Court. No transcript of the hearing was prepared. These same points were urged upon the Appellate Court in Butler's Petition for Rehearing, filed August 11, 1978, in response to which the Appellate Court issued its modified and supplemental opinions, *inter alia,* denying rehearing, 64 Ill.App.3d. 603, 381 N.E.2d 423 (1978). Further rehearing was denied on November 9, 1978.

The Illinois Supreme Court was advised of the foregoing in Butler's Petition for Leave to Appeal filed on October 10, 1978, wherein at pages 3-6, the trial court's refusal to consider the offers of proof was urged as contrary to the teachings of *Lear*. At the same time, and later by motion filed on December 1, 1978, the Illinois Supreme Court was made aware of the forthcoming decision in *Aronson* v. *Quick Point Pencil Co.*, ... U.S. ...., 99 S.Ct. 1096 (1979) and the possibility that *Quick Point* would resolve questions as to the application of the *Warner-Lambert* doctrine.

At pages 12-26 of the Petition for Leave to Appeal, the court was urged to review the application of *Warner-Lambert* in view of the teachings of *Sears Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *Day Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974) and *Lear, Inc.* v. *Adkins*, (*supra*). At pages 14-15 of its Petition to the Illinois Supreme Court, Butler argued:

"Basically, decisions as such as *Kewanee* and *Lear* limit the right of the individual states to grant protection to trade secrets by protecting what is already

publicly known, under the philosophy that the public will benefit most if ideas and knowledge in the public domain are freely available to those who wish to make use of them.

"When an inventor develops a 'plan or process, tool, mechanism, or compound known only to its owner', *Victor Chemical Works* v. *Iliff*, 299 Ill. 532, 132 N.E. 806 (1921), which is not found in the public domain, the inventor may elect to protect his discovery by either maintaining the discovery as a trade secret, or by seeking patent protection thereon, and disclosing the secret in an issued patent.

"Regardless of which alternative an inventor takes, if the inventor's discovery is already in the public domain, it can neither be protected by patent (35 U.S.C. §§102, 103), nor as a trade secret. *Victor Chemical* v. *Iliff* (*supra*), *Bimba* v. *Starz* (*supra*), *Schulenburg* v. *Signatrol, Inc.*, 33 Ill.2d 379, 212 N.E. 2d 865, *Smith* v. *Dravo*, 203 F.2d 369 (7th Cir. 1953). "This conflict between Federal patent policy and the rights of the individual states to protect trade secrets is evident in such cases as *Sears Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp.* v. *DayBrite Lighting, Inc.*, 376 U.S. 234 (1964), *Kewanee* v. *Bicron* (*supra*), and *Lear, Inc.* v. *Adkins* (*supra*), and the issues raised in the foregoing cases were important enough to have been considered by the U.S. Supreme Court, which had modified the right of a state to protect trade secrets to avoid conflict with Federal policy."

The Illinois Supreme Court refused to stay the proceedings in the Appellate Court pending the decision in *Quick Point*. However, the court did delay its decision on the petition until after *Quick Point* was decided. Nevertheless, the Illinois Supreme Court apparently (and mistakenly) read the opinion in *Quick Point* as affirming

Warner-Lambert, (even though *Warner-Lambert* was never mentioned therein), and thereafter denied Butler's Petition for Leave to Appeal, [App. 1] without opinion, on March 29, 1979*.

STATEMENT OF THE CASE

Petitioner, JOHN O. BUTLER COMPANY, (hereinafter referred to as "Butler") is an Illinois manufacturer of dental products. Butler has traditionaly maintained close contact with practicing dentists to whom it sells, for purposes of developing and introducing new products, and for providing already existing products.

In about 1958, a Butler employee, Barbara Beven DePeyster, whose job it was to visit practicing dentists on behalf of Butler, called upon a dentist who was using a disclosing solution in his practice.

Dental disclosants were not new; they had been utilized long prior to this controversy to reveal the presence of plaque on the teeth. This Honorable Court is invited to review Butler's offers of proof made to the Trial Court, wherein a portion of the extensive history of dental disclosants may be seen [C. 231-266; C 285-286; C. 299-

* Interestingly, the Appellate Court distinguished *Warner-Lambert* and *Quick Point* in its Supplemental Opinion of October 6, 1978 (64 Ill.App.3d at 623, 381 N.E.2d at 438) noting that *Quick Point* involved a patent application, whereas *Warner-Lambert* did not. In the absence of a written opinion concerning the Illinois Supreme Court's denial of Butler's petition, we can only conjecture as to the basis of the Supreme Court's denial: affirmance of the Appellate Court's analysis (antedating the decision of this Court in *Quick Point*), or misreading *Quick Point* as affirming of *Warner-Lambert*.

302]. Plaque is an organic substance believed to harbor micro-organisms suspected of causing tooth decay and various gum diseases. In its naturally occurring state, plaque is very difficult to see; a disclosant applied to the teeth is more readily absorbed by the plaque than by the tooth enamel and the stained plaque may be easily identified on the teeth.

The dentist complained that the solution was messy and inquired about the possibility of manufacturing a dental disclosant in tablet form [C. 95-96].

At a subsequent sales meeting, DePeyster described the dentist's request for a disclosant in tablet form to Emanuel H. Tarrson, then Vice President of Butler [C. 96].

Tarrson testified at trial that he thereafter contacted the Savoy Drug Company, and spoke to John J. Cermak concerning the type of product that Tarrson was interested in manufacturing. Cermak suggested using a water-soluble red dye known as Erythrosin, commonly known as FD&C Red. No. 3 [Tr. 111-112; Tr. 153-154].

Cermak testified that Savoy had manufactured disclosant samples for Butler as early as March, 1959 [Tr. 154]. Tarrson testified that work was done between Butler and Savoy to improve the taste and staining qualities of the tablet between about 1958 and 1961 [Tr. 115-116]; by 1961 the tablet colored plaque well but had not improved in taste and that Butler was primarily interested in improving the taste [Tr. 112]. Butler's offer of proof [C. 214] was made to the trial court [Tr. 197-99; H.Tr. 9-11] to show that Savoy's early work for Butler involved formulas which included a dye known as FD&C Blue No. 1 as early as 1959.

When work on the disclosant was at this stage, Tarrson testified that he contacted Robert M. Laff, a practicing dentist (hereinafter referred to as "Laff") and asked him to help Butler in field testing the tablet for marketing purposes [Tr. 113]. Laff is the plaintiff above and Respondent herein.

Laff and Tarrson had met earlier, back in about 1951, [Tr. 86; Tr. 108] at a dental meeting, and Laff was one of the dentists upon whom Tarrson would call on behalf of Butler. Tarrson first made the tablet available to Laff in about 1961, and asked for his help in testing the tablet for taste and for staining quality. In return for his continuing efforts, Tarrson offered to pay Laff a five percent royalty on gross sales of the disclosant tablet [Tr. 116-119].

Laff claimed to have originated the formula for Butler's disclosant, but repeatedly testified that the date of his first work with disclosing tablets was 1961 [Tr. 5; Tr. 20-21; Tr. 52; C. 119-210], a date *later* than that testified to by Tarrson [Tr. 115-16] and Cermak [Tr. 154]. Prior to that time, Laff had first learned of disclosants in a liquid form from a Dr. Jones in 1959 [Tr. 51-52], and Laff testified that his first use of any disclosant was in 1959 [Tr. 14]. Laff's first discussions with Butler concerning disclosants took place in 1961 [Tr. 56]; Laff did not know if, prior to 1961, Butler was aware of such a product as a disclosing tablet [Tr. 18]. At no time during the trial did Laff ever document any of his alleged research on disclosants, nor did he even identify his trade secret or specify the ingredients and proportions of his formula.

Laff first learned of disclosing tablets through the work of a dentist by the name of Dr. Sumter Arnim, who de-

veloped a disclosing tablet at the University of Texas [Tr. 53].* This knowledge came to Laff *after* his discussions with Tarrson concerning disclosants.

Tarrson testified that Laff thereafter learned that Butler was also using Red No. 3 in its disclosant [Tr. 125-26].

Laff's consulting services on Butler's disclosant also included work on the packaging and advertising copy for the product which was named RED-COTE by Butler [Tr. 23-24]. While Laff continued his services, the tablet was manufactured and marketed for at least ten years.

Shortly after the initial consulting arrangement, Tarrson testified that he and Laff agreed to adjust the payment to Laff for his consulting services on RED-COTE

* The offers of proof established that the red dye in Arnim's formula was identical to that in Laff's [C. 263-65], and that such dye was selected because it was listed as non-carcinogenic by the FDA, as set forth by Dr. Arnim in an article entitled "The Use of Disclosants for Measing Tooth Cleanliness" published in The Journal of Periodontology in May, 1963 [C 265]:

> "Some of the earliest studies names fuchsin [another commonly used red dye disclosant] as one of the suspect dyes. Dr. Hueper, author of 'Carcinogens in the Human Environment' was asked to recommend a suitable dye. He suggested that F.D.C. Red #3 (erythrosin) be tried. This dye is certified by the Food and Drug Administration for use in foods, drugs and cosmetics."

The Appellate Court, in trying to justify its refusal to admit testimony or the offers of proof, ,rationalized that Laff's formula was different because it contained a second dye for obtaining a color contrast with the gums, while ignoring Butler's offered evidence that combining dyes to produce a darker disclosant was public knowledge as early as 1937! [C. 285-86; C. 231-39].

from five percent to three percent of gross sales in the face of a two percent over-ride on sales being paid to the founder of The John O. Butler Company from whom Tarrson had purchased the company [Tr. 95-96; Tr. 117]. Laff denied that such an adjustment was ever agreed upon [Tr. 39].

This arrangement lasted until late 1972, when payments to Laff for RED-COTE were terminated because Laff had not been performing the consulting and testing services contemplated and required by Butler. Other, similar products had reached the market, and Butler required research efforts in order to stay competitive [Tr. 121].

Thereafter, in April, 1973, Laff filed suit against Butler for Breach of Contract and Misappropriation of a Trade Secret. In its answer to the Complaint, Butler denied Laff's allegation that Laff had a trade secret in the formula for RED-COTE, and alleged that the agreement was one for Laff's services.

On September 24, 1976, the trial court, sitting without a jury, found in favor of Laff and against Butler on the issue of liability. At a hearing held on September 28, 1976, Butler's trial counsel made an offer of proof as to certain documents which, *inter alia,* demonstrated that Butler developed its disclosant formula long before the date testified to by Laff, and that Laff's alleged "trade secret" was, in fact, in the public domain. The trial court refused to consider the other [Tr. 197-98]; it was later reoffered, and was again refused, by new counsel for Butler at a subsequent hearing on December 14, 1976 [H.Tr. 910] *where the trial court, at the same time, ordered further discovery as to damages, admitted further evidence on damages but dismissed defendant's offer of proof by precluding the admission of the offers into*

evidence through live testimony. Thereafter, final judgment was entered on January 7, 1977 [App. 39].

The Illinois Appellate Court affirmed the trial court on an opinion dated July 21, 1978. Thereafter, on August 11, 1978, Butler filed its Motion to Stay Ruling and Petition for Rehearing. In response thereto, the Appellate Court issued a modified opinion and supplemental opinion [App. 2; 32]; Butler's petition for rehearing or clarification thereof, filed October 27, 1978, was denied by the Appellate Court on November 9, 1978 [App. 34]. On March 29, 1979, Butler's Petition for Leave to Appeal was denied by the Illinois Supreme Court [App. 1].

REASONS FOR GRANTING THE WRIT

I. THE COURT'S DECISION IN QUICK POINT DID NOT CLARIFY THE CONFLICT BETWEEN THE WARNER-LAMBERT DOCTRINE AND THE LEAR-MODIFIED (OR ANALOGOUS) DOCTRINES IN OTHER LICENSE TERMINATION CASES.

The present case involves the compatability of Article I, §8, and Article VI, of the Constitution, with the assessment of perpetual damages for use of intangible property, in the public domain, after the termination of a trade secret license. The singular facts of the present case present issues to which this Court has not yet precisely spoken. The decisions by the state courts below on such vital issues effectively decides substantial federal questions in a manner not in accord with the philosophy expressed by the Court's prior decisions dealing with the preemption of the Constitution by the enforcement of such rights.

In the Court's most recent pronouncement in the area of defining the interface between Federal patent and copyright policy and the area of state-regulated trade secret matters, *Aronson* v. *Quick Point Pencil Company,* .... U.S. ...., 99 S.Ct. 1096 (1979), the Court relied, *inter alia,* upon *Kewanee Oil Co.* v. *Bicron Corporation,* 416 U.S. 470 (1974), to hold that, under the facts, enforcement of the agreement in *Quick Point* withdrew nothing from the public domain, and was enforceable for so long a period of time as the manufacturer chose to make and sell the item because the agreement *provided* that payment of royalties to the licensor would be in perpetuity, *at a lower rate,* should the secret become publicly known and/or not patented.

In its ruling, the Court expressed concern with harmonizing its earlier pronouncement in *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969), *Sears Reobuck & Co.* v. *Stiffel,* 376 U.S. 225 (1964), *Compco Corp.* v. *DayBrite Lighting, Inc.,* 376 U.S. 234 (1964), *Brulotte* v. *Thys Company,* 379 U.S. 29 (1964), and *Kewanee* (supra.) within the particular facts of *Quick Point.*

However, the Court noticeably did not expressly address the application of *Lear* principles to a trade secret agreement such as existed in *Warner-Lambert,* and in decisions such as *Choisser Research Corp.* v. *Electronic Vision Corp.,* 173 U.S.P.Q. 234 (Cal.Sup.Ct. 1972)* in the context of limiting damages for an alleged breach of a trade secret agreement based upon a showing that the alleged trade secret was in the public domain; nor did the Court consider the impropriety of lower court's refusal to receive evidence as to the public nature of the "trade secret" during its termination of damages.

The *Choisser*-type of cases and *Warner-Lambert* are in direct conflict, for *Choisser,* citing *Lear,* limits damages to the useful life of the trade secret, while *Warner-Lambert* makes such damages perpetual.

In *Choisser* the court based its decision upon the rule of *Lear,* and upon the parties' disagreement as to what liability their contract actually contemplated. This is closer on the facts to the present case than was *Warner-Lambert,* where the parties *specified, in writing,* their intention that liability be perpetual. The licensee in *Warner-*

* Other cases like *Choisser* are discussed (infra) but *Choisser* was chosen here because it expressly indicates that *Warner-Lambert* is tempered by the *Lear* doctrine when evaluating or assessing damages due to use of a non-secret "trade secrets".

Lambert did not seek release from the contract based upon any ambiguity as to the parties' intentions.

In fact, the commentators expected the *Quick Point* decision to be an appropriate vehicle for the Court to speak to the *"Warner-Lambert* doctrine", particularly due to the fact that the decision in *Warner-Lambert* predated that of *Lear,* while *Choisser* came after. See, for example, *BNA Patent Trademark, and Copyright Journal,* No. 390, dated August 10, 1978, wherein, after reporting the opinion of the appellate court in the present case, the Journal stated:

> "PTCJ COMMENT: Justice Mejda makes no mention of Aronson v. Quick Point Pencil Co., No. 77-1413, the patent preemption/trade secret case now awaiting review by the Supreme Court. See 382 PTCJ A-1, 375 PTCJ A-6.
>
> "The viability (as well as applicability) of the "Listerine" doctrine is very much in dispute in Quick Point."

See also Edward Vandenburgh, "Intellectual Property Law for the General Counselor", *Illinois Institute for Continuing Legal Education,* 1973, quoted hereinabove. However, this point is not addressed in *Quick Point,* as the Court neither mentions nor distinguishes the *Warner-Lambert* or *Choisser* decisions.

II. ENCOURAGING TRADE SECRET LICENSEES TO CHALLENGE THE VALIDITY OF LICENSED TRADE SECRETS IS A CORRECT APPLICATION OF THE TEACHINGS OF LEAR AND KEWANEE.

The Court's earlier holdings in *Sears/Compco, Kewanee,* and *Lear* set forth a basic policy distinguishing Federal patent and copyright laws and the laws of the individual state concerning trade secrets.

The incentive for seeking patent and copyright protection is the acquisition of the right to prevent others from making use of the matter protected by a valid patent or copyright. In exchange for this statutory protection, the patentee or copyright holder must disclose or publish the subject matter sought to be protected so that others may have the benefit of learning from the work done by the individual inventor or author. While this matter is then available to the public, use by the public is statutorily enjoined for the period of time during which a valid patent or copyright subsists.

One seeking to protect his work as a trade secret faces an entirely different situation. An inventor may choose to keep his newly developed article or process a secret, and may contract for the disclosure of his secret in return for payments conditioned upon either the disclosure or use of the trade secret. In so doing, the trade secret owner gives up any right to proceed against third parties who may discover the trade secret by legal means such as independent research, inspection of articles embodying the trade secret, or reverse engineering of the trade secret.

Underlying both of these areas of intellectual property is the federally expressed policy of keeping what is properly in the public domain freely available for use by the public. Despite the fact that a trade secret holder is not required to meet the stringent tests for patentability set forth in the patent statutes (35 U.S.C. §§101, 102, and 103), we submit that neither *Quick Point,* nor any other decision of the Court excuses a trade secret holder from proving that his secret is, in fact, a secret. Nor should this Court's holdings insulate a trade secret holder from proof that his secret was, in fact, no secret at all, and

that such proof properly limits the damages of a trade secret user.

In *Lear,* the Court encouraged patent licensees to challenge the validity of the patents under which the licenses were granted, by abolishing the state contract doctrine of licensee estoppel. In so doing, the Court has mandated that knowledge properly belonging in the public domain must remain freely available to the public rather than being tucked away behind the armor of an invalid patent. This philosophy was evinced even at the expense of upsetting innumerable patent license agreements, upon a judgment that the public interest would best be served by encouraging challenges to issued patents in order to weed out improvidently issued patents.

However, the Court has failed to address the situation which may occur when a trade secret agreement concerns matters which do not properly merit or warrant protection under the trade secret laws of the individual states. We submit that the Court should foster the same type of incentive as expressed in *Lear,* namely the effective challenging by a party to a trade secret agreement of the existence of a true trade secret.

This would in no way deprive the states of the right to regulate and enforce agreements concerning trade secrets, and would be consonant with the oft-expressed policy of the Constitution, the laws, and the courts, making matters present in the public domain freely available for all.

In view of the recent interest of the Court in clarifying the Federal impact on State trade secret laws, we submit that this case is particularly apt for the Court to express a policy conditioning perpetual liability for damages arising from a trade secret agreement on the existence of a

proven trade secret, and treating the issue of damages or the extent of damage liability with the same care as has been done in the wake of *Lear*.

III. THE COURTS BELOW REFUSED TO CONSIDER EVIDENCE THAT THE TRADE SECRET WAS PUBLICLY KNOWN FOR THE PURPOSE OF LIMITING DAMAGES FOR ITS USE.

After the entry of an interlocutory order on liability, but while the trial court had retained, and still had jurisdiction of the case for the purpose of assessing damages, Butler changed counsel. Thereafter, new counsel found substantial documentation of prior knowledge of the licensed subject matter and made extensive offers of proof calculated to demonstrate that the purported licensed trade secret was, in fact, in the public domain, or known to Butler and the public prior to the agreement of the parties, and that subsequent to the parties' agreement, there were several other publications of the so-called trade secret.

Even though the trial was still going on, and there had been no previous order bifurcating the issues of liability and damages, the trial court refused to consider the offers of proof, even as they related directly to limiting the damages for which Butler would be liable. Parenthetically, the trial court could also have allowed the offers to make a complete record for appellate review of the liability issue. Instead, the trial court blunted this attempt to make a more complete record, and the result was that the Appellate Court reviewed the case without the benefit of testimony on these points, and was handicapped for lack of a proper record. Thus ill-equipped, the Appellate Court made an improper evaluation of the prior art publications of Dr. Arnim, the *Bender* patent, and the *Raybin*

and *Arnim* articles, offered to show the absence of damages due to the lack of any protectable trade secret in the product. Certain of the offers of proof are discussed in more detail *infra*.

Refusal of the Illinois Supreme Court to modify the holdings of the lower courts denies effective challenge to the trade secret owner as to proof of the existence of a true trade secret, by saddling Butler with an *ad-infinitum* liability for use of a "trade secret" without considering evidence showing that the trade secret was in the public domain prior to the agreement in question or during the time that damages were assessed.

Enforcing liability against Butler is more than a *de minimis* inconvenience created by allowing all but Butler to freely practice Laff's "public" secret. Putting Butler in a crippled competitive position by enforcing the payment of royalties would discourage other manufacturers from investing effort and capital into ventures of unknown risks only to be faced with a subsequent situation where others are free to manufacture and sell the identical product without incurring similar expense and effort in the area of research, testing, advertising, and marketing.

Under such conditions, in the absence of a written contract between Laff and Butler, and with Laff performing his consulting services, it is not surprising that Laff could not produced any hard evidence of an agreement obligating Butler to keep a specifically identified formula secret, nor to pay for anything other than Laff's continued services, whether or not the formula was publicly known.

Decisions such as the one below unfairly reward parties who, through clever salesmanship, ambiguous agreements,

or even ignorance of the true state of the art, induce another to enter a relationship which may later be construed as creating perpetual liability to pay for the use of a "trade secret" which is no secret at all.

IV. SUBSEQUENT APPLICATION OF THE LEAR DOCTRINE ILLUSTRATES THE SOUNDNESS OF THE DOCTRINE AS APPLIED TO TRADE SECRET LAW.

Lear armed patent licensees with the right to challenge the validity of a licensed patent and to end liability for the payment of royalties where the alleged patent was, in fact, found to be invalid. In so doing, the Court created a controversy as to determining the proper period during which royalties should be payable to the licensee. The same considerations arise out of agreements involving trade secrets.

The courts have had to balance the claims of licensees, relying upon *Lear,* that all royalties paid to a licensor be refunded upon a finding of invalidity, with the prospect that such treatment would discourage inventors from seeking patent protection. In so doing, the courts faced and resolved problems such as whether a patent licensee may claim a refund of all royalties paid when the licensed patent is held invalid, whether the licensee will be liable for any royalties paid or due, what is the proper period of time during which damages will be due, and the liability of a "bystander" licensee when the patent is held invalid in litigation to which the "bystander" is not a party.

Decisions such as *Troxel Manufacturing Company* v. *Schwinn Bicycle Company* [*Troxel I*], 465 F.2d 1253 (6th Cir. 1972); *Troxel Manufacturing Company* v. *Schwinn Bicycle Company* [*Troxel II*], 489 F.2d 968 (6th Cir. 1973), *cert. den'd.* 416 U.S. 939 (1974); *P.P.G. Industries, Inc.* v. *Westwood Chemicals, Inc.*, 530 F.2d 700 (6th Cir. 1976), *cert. den'd.*, 429 U.S. 824, 97 S.Ct. 76 (1976); and *Atlas Chemical Industries, Inc.* v. *Moraine Products,* 509 F.2d 1 (6th Cir. 1974) highlight these considerations.

This particular line of decisions, from the Sixth Circuit, was written by Chief Judge Phillips, and represent a well-reasoned approach to assessing damages under the holdings in *Lear,* and we submit that a parallel analysis should be required in trade secret caces.

In *Troxel I,* Troxel was manufacturing bicycle seats as a non-exclusive licensee under a design patent owned by Sears. In litigation concerning another Sears' licensee, the patent was held invalid, and the finding of invalidity was affirmed; Schwinn then notified its licensees that no royalty payments would be due and owing after the date of the court of appeals decision.

Troxel then brought suit to recover all royalties paid by it to Sears under the agreement, and the district court read *Lear* to require a refund of all royalties paid. Judge Phillips reversed, holding in *Troxel I* that no refund of royalties was allowable and, in *Troxel II,* that Troxel would be liable for royalties payable up until the date of the court of appeals decision affirming the invalidity of the patent.

In *Atlas,* the Sixth Circuit Court of Appeals ruled that where a licensee challenges the validity of a patent, the licensee will be liable for royalties paid only up until the date of the "challenge" of the patent e.g., the date of filing of a lawsuit.

In *P.P.G.*, a licensee filed a declaratory judgment action challenging the validity of a patent *after* a district court in another circuit had declared the same patent in-

valid, but before the court of appeals had affirmed the prior holding of invalidity. The Sixth Circuit Court of Appeals held that P.P.G.'s liability for the payment of royalties ceased as of the date it filed the declaratory judgment action, interpreting the filing of the suit as an affirmative challenge to the patent sufficient to meet the requirements of *Lear*.

While the foregoing discussion is by no means exhaustive in terms of analyzing the application of *Lear*, the various circuits have generally embraced this approach to determining damages under the *Lear* doctrine, which encourages challenges to a patent's validity, and limits liability for royalties paid or accrued to the date upon which the challenge was made, and still falls within the reasoning of *Lear*. See for example, *Ransburg Electro-Coating Corp.* v. *Spiller & Spiller, Inc.*, 489 F.2d 974 (7th Cir. 1973) (spirit of *Lear* is furthered by enforcement of pre-eviction settlement agreement); *Kraly* v. *National Distiller & Chemical Corp.*, 502 F.2d 1366 (7th Cir. 1974) (royalties are payable for so long as licensee enjoys protection of patent); *USM Corp.* v. *Standard Pressed Steel Co.*, 524 F.2d 1097 (7th Cir. 1975) (provides for refund of post-challenge royalties paid to licensor during challenge); and *Zenith Laboratories, Inc.* v. *Carter-Wallace, Inc.*, 530 F.2d 508 (3rd Cir. 1976), *cert. denied* 426 U.S. 921, 97 S.Ct. 85 (1976) (denial of pre-challenge royalties to licensee).

Decisions such as these not only encourage licensees to question validity, they also protect a patentee from bad faith or ill-founded assertions of patent invalidity brought by a licensee by paying careful attention to the measure and extent of damages arising from agreements concerning patents subsequently held to be invalid.

We submit that the overriding Federal policy of protecting what is in the public domain from preemption by private agreement can only be served when damages for the disclosure or use of a so-called trade secret may properly be limited:

1. By proof of whether a trade secret does not or did not exist and,

2. By limiting the maximum damages for use of an alleged trade secret found to be in the public domain to that period of time prior to challenge of the trade secret, unless there is a clear written agreement between parties to do otherwise.

We further submit that the period of time over which damages may be assessed is a critical determination in the case at bar, and evidence relating to the existence or non-existence of a trade secret is likewise critical to such a determination and should have been received by the trial court, or mandated by the Appellate Court, during the time that the trial court had ruled on liability and had jurisdiction over the case for the purpose of assessing damages. Had the offers of proof been considered the outcome of the case would surely have been different. Damages properly assessable in the present case would have been nominal, rather than the $49,215 entered by the trial court together with the perpetual liability and legal uncertainties fostered therewith.

V. THE COURTS BELOW ERRED IN RELYING UPON WARNER-LAMBERT WITHOUT CONSIDERING THE LEAR DOCTRINE, AND IN SO DOING, DEMONSTRATED A DIRECT CONFLICT WITH DECISIONS OF OTHER JURISDICTIONS.

Both the findings of the trial court herein, and the Appellate Court in affirming the trial court depend upon

the *Warner-Lambert* decision. In fact, the Appellate Court specifically held:

> "We find *Warner-Lambert* to be persuasive in the instant case." 64 Ill.App.3d at 617, 381 N.E.2d at 443.

In so doing, the Appellate Court rejected Butler's argument that blanket application of the *Warner-Lambert* doctrine should be tempered by the decision in *Lear;* the Appellate Court referred to the language in *Lear* reserving enforcement of contractual rights relating to unpatented secret ideas to the states (395 U.S. at 675) without considering the implications of *Lear* as to the limiting of damages and encouraging challenge of the alleged secrecy of ideas found to be in the public domain.

Warner-Lambert antedated *Lear* and the district court did not have the benefit of *Lear's* guidance when it based its opinion solely upon the lack of any issues under the patent or copyright laws, in the following language:

> "The considerations which lead the courts in the patent and copyright cases cited to limit the obligation to the term of the patent or copyright have no application here." 178 F.Supp. at 665.

Clearly, the Court in *Quick Point* used a more stringent test by requiring serious inquiry as to whether enforcement of the agreement would withdraw any idea from the public domain, or would stand as an obstacle to the constitutional purposes of the patent system, and how it interfaces with the law of trade secrets as set forth in *Kewanee.*

In addition, the parties in *Quick Point* expressly provided for a reduced royalty amount for the period of time after the article entered the public domain. In so qualifying the doctrine of perpetual liability, the Court

suggests that inquiry as to the trade secret status of the disclosure is germane to measuring damages. Such a royalty arrangement is tantamount to a provision for liquidated damages should the licensed property not retain its status as a trade secret or as an otherwise proectable property through the patent laws.

In the present case, just as in *Quick Point,* there exists a controversy as to the nature of the benefit conferred upon the licensee, namely, the presence of the claimed "secret" in hte public domain. However, unlike *Quick Point,* the present case involved *no* provision for a liquidated amount to be paid to the licensor, during the period for which damages were sought for breach of contract and misappropriation of a trade secret.

Inquiry as to measure of benefit conferred upon Butler was clearly required to evaluate to what extent the licensed subject matter was already known; it was therefore absurd for the trial court to refuse to allow testimony and further inquiry, during the trial, as Butler attempted to do by way of its offers of proof.

By refusing to consider the offers of proof, the courts below have, in effect, imposed an anti-competitive post-term covenant that is perpetual in duration. To be enforceable under Illinois law, such a covenant must be reasonable in its terms, *House of Vision, Inc.* v. *Hiyane,* 37 Ill.2d 32, 225 N.E.2d 21 (1967), and damages for breach of such a covenant, absent other defined property rights, may only be assessed upon proof of the secret nature of the subject matter involved, during the period that it was used. *Bimba Manufacturing Company* v. *Starz Cylinder Company,* 120 Ill.App.2d 170, 256 N.E.2d 357 (1970).

Consider, by way of example and analogy, a usual franchisor-franchisee relationship, governed by nothing more than an elaborate contract to license, *inter alia*, trade secrets. Typically, a franchisee is required to agree that after termination of the franchise agreement, it will not sell the same goods or services for a stated amount of time thereafter, that he will not make use of the franchisor's trade secrets, and that he will refrain from using the trademarks of the franchise.

Assessing damages for an alleged breach of such a post-term covenant requires a determination as to the reasonableness of the restrictions and further requires a determination of whether the former franchisee is using franchisor's trade secrets, or is using material in the public domain, or other non-protectable properties of the franchisor. See, for example, *Turner* v. *Colbern*, 348 P.2d 603 (Kan.Sup.Ct. 1960) where the court specifically interpreted a judgment to make it clear that a former franchisee could make full use of all non-secret aspects of the franchisor's process for frying chicken. Glickman, *Franchising*, §10.09[2][a] n.5.

Where a court has determined that the former franchisee is using only items and practices freely available in the public domain, the franchisor can prevent such use *only* by a covenant not to compete, and *only* if the facts show that the covenant is necessary and reasonable. *Shakey's Inc.* v. *Martin*, 430 P.2d 504 (Idaho Sup.Ct. 1967). Further, Illinois courts have held that, where no proven trade secrets existed, enforcement of such a covenant was unreasonable. *Solar Textiles Co.* v. *Fortino*, 46 Ill.App.2d. 346, 196 N.E.2d. 719 (1964).

Interestingly, even where a party has been found to have intentionally taken another's trade secrets, thereby violating a relationship of trust, the courts have seen fit

to limit damages for the taking to that period of time required to discover the secret by lawful means rather than imposing perpetual damages. *Schulenberg* v. *Signatrol, Inc.*, 33 Ill.2d 379, 212 N.E.2d 865 (1965); *Winston Research Corp.* v. *Minnesota Mining & Mfg. Co.*, 350 F2d 134 (9th Cir. 1965).

Surprisingly, the Appellate Court in the present case made an artificial distinction between employer-employee disputes and contractual disputes relating to trade secrets. In effect, the Appellate Court has held that the "reverse engineering" concept of determining the term of protection of a trade secret applies only to employees (64 Ill.App.3d. at 615, 381 N.E.2d at 432).

This is in direct conflict with this Court's pronouncement in *Kewanee, Sears/Compco*, and *Lear*, as set forth *supra*, and highlights the division among the individual states in the *Turner, Shakey's* and *Winston* cases cited above.

The courts below refused to entertain Butler's offers of proof on this critical issue and thereby liberally misapplied *Warner-Lambert* even though the agreement between the parties did not show a clear expression for agreeing to the payments in perpetuity and even though the mandate of Lear should have been followed to the extent that there must be a clear expression in the agreement to enforce payment in perpetuity.

We submit that it is as much a purpose of the Federal policy to prevent the unwarranted withdrawal of ideas from members of the public and to preclude unwarranted payment for such ideas in perpetuity, as it is to measure the patentability of such ideas against standards for novelty, utility, and non-obviousness. Failure to consider evidence of proof that the ideas conveyed were not secret,

and that payment in perpetuity was not proper, or reasonable, and amounts to an unwarranted withdrawal of matter in the public domain, with serious implications extending beyond the present case. Withdrawal of ideas from the public domain, whether under the auspices of an invalid patent, or an agreement relating to "un-secret" trade secrets, should not be countenanced, and the public is best protected against such withdrawal by encouraging licensees thereof to challenge their propriety, at least to the extent of limiting damages under such an agreement where the agreement is terminated, and no provision is made for liquidated damages.

Butler's answer to the original complaint filed by Laff challenged the existence of any trade secret alleged by Laff by denying the existence of same [C. 7] and it was error for the courts below to refuse to allow consideration of evidence determinative of Butler's damages as of any date other than the date of the original agreement. The Appellate Court's hypothetical treatment of the evidence that would have come in if testimony supporting the offer of proof was admitted is no substitute for live testimony and thereby curtailed, the opportunity of Butler to have its day in Court as Butler sought. If anything, the Appellate Court's seemingly painstaking but substitute analysis is a clear admission that the evidence should have been received in the lower court to allow Butler to make a proper record on appeal; the Appellate Court felt it necessary to analyze the offers of proof, but did so improperly based upon the incomplete record made in the trial court. In effect, the courts below found that Butler's liability commenced as of the agreement between the parties and refused to consider evidence which would, under the holdings in Lear and subsequent cases, terminate Butler's liability at some post-agreement (post-term) point in time.

Here, no written agreement existed. The agreement in question was oral and disputed, the terms of which were construed by the trial court at a trial where the owner of the alleged trade secret produced *no* documentary *or* corroboratory evidence to establish that Laff, in fact, created or transferred any trade secret. Laff's testimony made it clear that he was unfamiliar with the body of prior art predating his alleged trade secret and that he became aware of disclosants only through the work of another researcher in the field whose efforts to create an effective disclosant tablet long predated the work done by Laff.

We submit that it was error for the courts below to adopt a construction so contrary to the teachings of Lear by this Court and so contrary to the application of Lear by the various courts throughout the United States.

VI. IT WAS ERROR TO REFUSE BUTLER'S OFFERS OF PROOF RELATING TO DAMAGES WHERE SAID OFFERS WERE MADE BEFORE THE TRIAL COURT HAD CONCLUDED ITS TRIAL ON DAMAGES.

Enforcement of trade secret laws becomes an obstacle to the federal patent system under the reasoning of *Kewanee* and *Sears/Compco* when, as in this case, state-administered trade secret regulation allows ideas to be withdrawn from the public domain, even where such protection is enforceable against only a single party to an agreement concerning the purported trade secret. Thus, federal policy, while acknowledging the propriety of trade secrets, still must be read to hold that ideas cannot be un-

fairly withdrawn from any member of the public, even if the idea is ultimately freely usable by the remainder of the public.

What Butler is suggesting is that all factors concerning the protection of trade secrets may remain, but where an agreement is challenged, evaluation of the lack or presence of a true trade secret must be an integral part of any trial seeking to assess damages after termination of an alleged trade secret agreement.

The courts below made no determination that the trade secret alleged and claimed by Laff was not, in fact, freely available to anyone having the patience to read the available literature concerning dental disclosants at or before the time of the agreement between Laff and Butler. The court did find that there was an agreement between the parties, and we submit that Butler, based upon Laff's refusal to furnish services to Butler, terminated the agreement, leaving the question of damages to be determined by examining whether Laff's so-called trade secret was, in fact, a secret.

It should also be noted that the trial court announced its holding immediately after the concluding remarks by the respective attorneys without requiring post-trial briefs. However, the trial court reserved jurisdiction upon the matter of damages, ordered further discovery on damages, considered that discovered evidence but yet did not allow a presentation of the evidence contained in the offer of proof.

It was during the time prior to the entry of a final judgment assessing damages that new counsel for Butler made extensive offers of proof relating to the state of

the art prior to and subsequent to the agreement of the parties.

It was argued to the trial court that the offers of proof were relevant as to the extent of damages, because the trade secret Laff was claiming as his, as it could then be deduced from the record, was known to Butler before Laff allegedly developed his formula, was disclosed in the applicable prior dental disclosant art, had been made publicly available by the sale of the product itself, and had been made public by an issued U.S. Patent, No. 3,723,613 [C.299-302]. This patent clearly describes a disclosant formula in tablet form, using Red No. 3 and Blue No. 1 in the following language:

> "The manner by which the dye is made available to the mouth area is not critical and will vary according to patient acceptance and convenience. For example, in addition to painting on the teeth the novel dye can be formulated as a chewable tablet, wafer, powder, lozenges, aerosol, liquid concentrate, etc.
>
> "Examples directed to the preparation of such formulations are as follows: [Column 4, lines 29-37]
>
> * * *

	% by weight
"Ethanol, USP	15.00
Polysorbate 80	0.20
Flavoring oils	0.50
Glycerin	5.00
FDC Red No. 3	.25
FDC Blue No. 1	.50
Water, 9.5 ad	100.00

[Column 4, lines 53-58]

Among the offers argued to the trial court were U.S. Patent, No. 2,151,495, issued March 21, 1939 to David Bender [C. 285-86], and an article entitled "Disclosing

Solutions", by Murray Raybin, published in the March, 1945 issue of *Dental Items of Interest* [C. 231-39].

The *Raybin* article discusses a number of prior art disclosant formulas, and specifically mentions the Bender formula, as described in the *Bender* patent, as follows:

> "(8) Bender's Disclosing Solution is essentially a solution containing glycerin and two dyes, Rose Bengal and Guinea Green." [C.237];

thus describing a two-dye disclosant long prior to any work done by Laff.

The trial court brusquely rejected this showing and the Appellate and Supreme Courts of Illinois failed to correct this abuse. Thus, *no* evidence was ever received to measure Laff's trade secret against the available prior art.

The trial court was required by law to allow presentation of the evidence outlined in the offers of proof because matters of substantial controversy concerning the amount of damages to be assessed still existed, e.g., if the licensed matter was in the public domain, no real benefit was conferred upon Butler and damages should accordingly have been limited. *Deckard* v. *Joiner*, 44 Ill.2d 421, 255 N.E.2d. 900 (1970); *Walters* v. *Mercantile National Bank of Chicago, et al.*, 380 Ill. 477, 44 N.E.2d 429 (1942).

The difficulty the courts below had in seeing that Laff's trade secret was in the public domain arose because Laff failed or refused to identify his formula at trial. Thus, there was never a rational basis upon which to determine precisely when Laff's formula entered the public domain for the purposes of computing the applicable period of timed uring which damages, if any, would be owed by Butler to Laff.

Had the trial court allowed the proofs to proceed the proofs would have established that even at the time of alleged disclosure the alleged secret was not a trade secret and therefore damages would have been limited to one dollar if Butler had had its day in court. Until Butler terminated the agreement, it was utilizing Laff's services in testing the disclosant. With proof that Laff had no trade secret there was no further consideration to support any continued liability under the agreement, once it was terminated, and once Laff ceased to perform his services for Butler, damages were thereby limited just as in other instances involving post-term covenants.

This is particularly true where one of the offers of proof showed, that, apart from what was known in the prior art, Laff's formula was known to *Butler*, and to Butler's *supplier* before the time Laff allegedly created "his" formula. Offer DEX 2 is a handwritten memo setting forth the formula developed for Butler by Savoy Drugs, dated *two years prior* to Laff's alleged date of development. The 1937 *Bender* patent describes the reason for including two dyes as follows:

> "The solution may however, contain only one of these dyes, but it is preferred that it contain both. The use of both of these dyes in the disclosing solution gives a more pronounced color reaction with the stains on the teeth than either one alone." [C. 285].

Apart from any consideration of DEX 2, the Appellate Court failed to see that the remaining prior art taught Laff's "secret", and erroneously concluded that consideration of the offers of proof would not have changed the outcome of the case 64 Ill.App.3d. at 619-620, 381 N.E.2d. at 435-36.

In a recent pronouncement, the Fifth Circuit Court of Appeals has reaffirmed that information cannot be the subject of a trade secret if it is readily ascertainable, even though the precise trade secret is not then known to the trade, if it can be deduced from prior publications. See *Carson Products Company* v. *Califano*, 594 F.2d. 453 (5th Cir. 1979).

In *Carson*, the owner of a purported trade secret sought exemption from an FDA requirement to identify the contents of its product on its label by alleging that in so doing it would be destroying its own trade secret. The Food & Drug Administration argued that the secret was discoverable in prior scientific literature even though neither the exact proportions nor manner of use of the substance involved was specifically set forth, and even though Carson's competition had apparently not yet discovered the use of the formula involved.

We submit that *Carson* correctly sets forth the elements of proper trade secret analysis applicable to the individual states and consistent with the pronouncements of this Court. Under such an analysis, the Appellate Court's conclusion that the offers of proof did not establish that Laff's alleged trade secret was in the public domain was incorrect. Laff *admitted* that he learned of the use of Red No. 3 in pill form from another dentist [Tr. 19; 53]; this dentist sent a general mailing to the profession which identified the key ingredient in Butler's disclosant [C. 263-65]. It is also uncontroverted that the prior published *Raybin* article and *Bender* patent describe with specificity dental disclosants using more than one dye to achieve a darker stain, and that the *Block, et al.* patent described a dental disclosant, in tablet form, utilizing the identical ingredients claimed by Laff [C. 299].

The Appellate Court further failed to understand that the crucial issue in a trade secret case where two parties claimed to have developed the same formula, was to determine who first arrived at the formula for the disclosant being sold by Butler. Laff alleged that the formula was his, but never identified the formula at trial and never presented any evidence of his claimed experimentation to develop the formula. Quite to the contrary, Laff persisted in testifying that his development of the formula in question occurred in 1961, well after the date alleged by Tarrson.

The Appellate Court erroneously found that none of the evidence in the offers of proof required a finding for Butler:

> "The only evidence of any work by defendant occurred before plaintiff's work is found in the handwritten note paper mentioned above." 64 Ill.App.3d at 603; 381 N.E.2d. at 436.

This "hand-written note paper" [C. 214], originating with Butler's disclosant manufacturer is the only documentation of *any* work done by either Laff or Butler which shows a two-dye disclosant formula using Red No. 3 and Blue No. 1. Laff neither produced such notes, nor testified as to such notes; Butler's offer of proof constituted the *only* relevant hard evidence offered on this issue. At the very least, it is evidence that the elements of Laff's formula were known to Butler prior to any work done by Laff.

Butler's then trial counsel, while the trial court retained jurisdiction over the cause to conduct discovery and a hearing relating to damages, attempted to offer

DEX 2, to show that a formulation for a disclosant containing the two dyes alleged by Laff to be in his formula was arrived at in March of 1959, prior to Laff's alleged work in 1961. The trial judge refused to consider the proffered exhibit.

Thereafter, at the hearing, prior to final judgment, and while discovery as to damages was proceeding, new counsel for Butler made the remaining offers of proof which not only included the above-described exhibit, but also included statements offered by both Tarrson and Cermak as to the circumstances under which the exhibit had come into existence and exemplars of the most pertinent prior art. The trial court refused to consider the offers.

The offers of proof demonstrated that there was a wide body of prior knowledge relating to disclosants, knowledge which clearly showed that Laff's alleged trade secret was not only known during the time damages were assessed but was known even before the damage period.

We submit that, in the face of such offers, it was error for the courts below to decide as they did, particularly where the formula had not been identified and certainly had not been measured against applicable and publicly available knowledge concerning disclosant formulas. Such judicial oversight had the effect of granting full trade secret protection to matter properly belonging to the public, contrary to *Kewanee,* and imposing perpetual liability upon a party where such liability was neither considered nor agreed upon.

VII. CONCLUSION

We recognize that the holding in *Kewanee* specifically reserves to the individual states the right to protect trade secrets. We seek a ruling that would clarify the application of the conflicting *Warner-Lambert* and *Choisser* doctrines to make it clear to the courts of the individual states that after termination of a trade secret agreement, any post-term provisions effected thereby must be evaluated against a backdrop of evidence concerning the state of the art. Such provisions must be reasonable in scope, and cannot prohibit use of the licensed subject matter or unfairly impose tribute, by way of money damages, to effect an unnecessary restriction to knowledge in the public domain. A trade secret licensee should be given the same incentive to challenge the authenticity of a licensed trade secret as patent licensees enjoy under the holding in *Lear.*

Clarification becomes particularly important in assessing the extent of damages when a trade secret agreement is terminated. It is also important where, as here, the parties completely disagreed as to the terms of their oral agreement. Butler had no reason to challenge or verify the existence of any trade secret because in Butler's eyes the agreement was one for services, terminable when the services were no longer being furnished by Laff. This interpretation is supported by the parties' conduct, for Laff never insisted that Butler keep anything secret or confidential. In fact, Laff's Complaint [C. 1-5] fails to allege any agreement between the parties to keep anything secret. This situation unfairly benefited Laff be-

cause, with the passage of time, the facts and recollections surrounding the inception of the agreement necessarily became dim.

If, as in *Lear*-related cases assessing damages, the extent of damages is limited to the point in time at which the licensee first challenges the licensor to prove the existence of his trade secret, then it becomes critical for the court assessing damages to receive and *fully review all evidence relating to whether a trade secret existed, or determining that point in time at which the trade secret ceased to exist.*

For the foregoing reasons, we respectfully request that a writ of certiorari issue to review the judgment of the courts below.

Respectfully submitted,

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APPENDIX

ILLINOIS SUPREME COURT
Clell L. Woods, Clerk

Supreme Court Building
Springfield, Ill. 62706

(217) 782-2035

March 29, 1979

Mr. Irwin C. Alter
Attorney at Law
Alter and Weiss
208 South LaSalle St.
Room 510
Chicago, IL 60604
No. 51369 —

Robert M. Laff, respondent, vs. John O. Butler Company, petitioner. Leave to appeal, Appellate Court, First District.

The Supreme Court today denied the petition for leave to appeal in the above entitled cause.

Very truly yours,
/s/ Clell L. Woods
Clerk of the Supreme Court

ROBERT M. LAFF, Plaintiff-Appellee, v.
JOHN O. BUTLER COMPANY, Defendant-Appellant.

First District (5th Division) No. 77-567

Judgment affirmed.

Opinion filed July 21, 1978.—Opinion modified and supplemental opinion filed on denial of rehearing October 6, 1978.

1. APPEAL AND ERROR (§1756.40)—*trial court's construction of oral agreement will be followed unless against manifest weight of evidence.* In action for construction of oral agreement, where there are conflicting interpretations of such agreement, trial court's construction will be followed unless it is against manifest weight of evidence and opposite conclusion is clearly warranted.

2. APPEAL AND ERROR (§1714)—*trial court's determination that plaintiff was credible witness was not against manifest weight of evidence.* In action for construction of oral agreement, where plaintiff testified that product defendant marketed was plaintiff's trade secret and that plaintiff and defendant had agreement that defendant would pay plaintiff 5 percent of gross sales as royalties for use of trade secret, and defendant testified that agreement between plaintiff and defendant was to pay for plaintiff's market research, determination that plaintiff was credible witness whose testimony in all material respects was true was best made by trial court and was not error.

3. TRADEMARKS, TRADE NAMES AND UNFAIR COMPETITION (§6.5)—*what necessary to prove that something is a trade secret.* In order to prove that something is trade secret there must be showing that one's "creative faculties" were used in developing secret since mere distillation of general knowledge which is common to particular trade is not sufficient.

4. TRADEMARKS, TRADE NAMES AND UNFAIR COMPETITION (§6.5)—*finding that disclosant tablet formula was a trade secret was not against manifest weight of evidence.* Where plaintiff testified that he developed formula for tablet-form disclosant, that he disclosed formula to defendant and no one else, and at time formula was developed, although the disclosants were in use in dental profession, no tablet-form disclosant had been produced, plaintiff established elements of trade secret, and trial court's finding that disclosant tablet formula was trade secret owned by plaintiff was not against

manifest weight of evidence, since burden was on defendant to introduce contrary evidence and defendant produced no evidence to corroborate statements of its witnesses.

5. CONTRACTS (§103)—*oral agreement properly construed to provide that disclosant tablet formula was plaintiff's trade secret.* In construction of oral contract, where plaintiff received no payment from defendant until tablet-form disclosant was first placed on market, although his work on developing formula began earlier plaintiff regularly received payments for disclosant until 1972, whether or not he worked further on product, and although defendant claimed that "services" formerly provided by plaintiff were now being performed by university, university was not paid on percentage basis as was plaintiff, evidence clearly supported trial court's construction of agreement that formula was plaintiff's trade secret and defendant paid royalties for its use.

6. STIPULATIONS (§4)—*words will be given their natural and ordinary meaning when construing stipulation.* In construing stipulation, words used must be given their natural and ordinary meaning, and commonly accepted meaning of royalty is that it is payment made to inventor for use of his invention, based on portion of monies received by user in course of sale of invention.

7. STIPULATIONS (§4)—*trial court properly concluded that payments made for use of plaintiff's formula were royalties.* Where defendant stipulated at trial that payments for disclosant tablet and other product were in nature of royalties, where plaintiff accepted ordinary meaning of words as regularly used by defendant, and where trial court accepted ordinary meaning of word "royalty" in accepting defendant's stipulation, it was not error for trial court to conclude that payments were royalties paid for use of plaintiff's formula.

8. APPEAL AND ERROR (§1714)—*finding that there was no agreement with regard to changing the rate of royalties paid for the use of plaintiff's trade secret was*

not against manifest weight of evidence. Where plaintiff claimed that there was no agreement to reduce royalties, there was nothing presented by defendant to support its position to contrary, and although defendant claimed reduction was necessitated by payments made to founder of company, no such reduction was made in royalties to plaintiff for other trade secret and disclosant tablet royalty payments were never restored to original amount when payment to defendant-founder were no longer required, question of challenged reduction in royalties became question of credibility of plaintiff and defendant's witness, and trial court's finding that plaintiff was credible witness and that there had been no agreed change in rate of royalties were clearly not against manifest weight of evidence.

9. TRADEMARKS, TRADE NAMES AND UNFAIR COMPETITION (§6.5)—*formula was not disclosed by product itself and was still entitled to be considered a trade secret.* Where only matter made known by disclosant tablets and liquids themselves was their form, where identification of kinds and quantities of dyes, flavorings and other components could only be made through chemical analysis of products and where such information was not disclosed by manufacture of tablets and liquids using plaintiff's formula, formula was not disclosed by product itself and could still be considered trade secret.

10. PATENTS AND INVENTIONS (§23)—*defendant's obligation to pay for the use of plaintiff's trade secret properly found to be in effect so long as the formula was used.* In construction of oral contract for payment of royalties for use of formula to produce disclosant tablet, where contract was based on similar contract between parties for different product and other contract provided for payment of royalties until product was discontinued, it was not error for trial court to find that obligation for defendant to pay remained in effect so long as it manufactured the disclosant tablet line using plaintiff's formula.

11. CONTRACTS (§426)—*contract between parties was not terminated as there was no evidence that parties intended to terminate contract in case competition developed.* Where defendant still marketed disclosants which used plaintiff's formula, and it was highly unlikely that it would continue to do so if it were not profitable, and where defendant lost its headstart advantage because there were competing products on market, contract between parties was not terminated since there was no evidence that parties intended to terminate contract in case competition developed and to do so in absence of such evidence would set dangerous precedent.

12. EVIDENCE (§235)—*witness properly precluded from testifying as to his opinion as to ownership of formula which was basis of oral contract for payment of royalties.* Where question put to witness regarded his opinion of ownership of formula which was ultimate issue in case, where testimony would not have been allowed even if witness had been accepted as expert, since his expertise was not in area of questions of ownership but in area of development of chemical formulas, and where witness was prevented from testifying as to specific facts regarding development of disclosant tablet by defense counsel's termination of direct examination, trial court's ruling that witness could not testify as to his opinion of ownership of formula was not error.

13. TRIAL (§64)—*additional evidence as to the use and development of the formula which was basis of oral contract for payment of royalties properly refused.* Where none of offered documentary evidence of development of disclosants showed that plaintiff's formula was used or developed by others, and affidavits of statements by defendant's witnesses, while giving additional support to defendant's case, did not necessitate finding in defendant's favor, it was not error for trial court to refuse to allow additional evidence.

14. TRIAL (§64)—*defendant's offer of additional evidence properly refused.* Where offered documentary evi-

dence was available at time of trial, and defendant's witness testified at trial so that defendant had opportunity to present offered evidence at trial but did not do so, it was not error for trial court to refuse defendant's offers of additional evidence, since in determining whether or not to allow additional evidence, trial court may consider diligence exercised by offering party and whether or not evidence is newly discovered.

15. NEW TRIAL (§68—*mere fact that attorney's judgment of case does not coincide with court's judgment will not support request for new trial.* Where party has appeared, filed pleas, introduced evidence, and had trial, mere fact that party's attorney's judgment of case does not coincide with court's judgment will not support request for new trial.

16. DAMAGES (§326)—*damages awarded on basis of contract for payment of royalties for use of secret formula were not excessive.* Where contract provided that royalties would be based on 5 percent of gross sales and damages awarded were based upon terms of contract, damages were not excessive.

17. APPEAL AND ERROR (§1944)—*judgment amended to remove trade name from order.* Agreement between parties concerning defendant's use of plaintiff's formula in selling disclosant products was not affected by fact that, in future, defendant might market other products under same name or market disclosants using plaintiff's formula under different name and judgment order was amended to remove trade name.

18. APPEAL AND ERROR (§885)—*issue of defendant's use of trade name was not before trial court and could not be raised for first time on appeal.* In action on contract for use of plaintiff's trade secret formula for disclosant products, issue of defendant's property rights in trade name used to sell disclosants or its use with other products not using plaintiff's formula was not before trial court and could not be considered by reviewing court.

19. PATENTS AND INVENTIONS (§1)—*Federal patent law does not preempt State trade secret law.*

20. ABATEMENT AND REVIVAL (§13)—*motion to stay final ruling pending action in Federal court denied.* Where case pending in United States Supreme Court involved inventor's reliance on Federal patent law from outset of contractual relationship there was not cause to postpone final ruling on case which solely involved State trade secret law and motion to stay final ruling was denied.

APPEAL from the Circuit Court of Cook County; the Hon. WALTER J. KOWALSKI, Judge presiding.

Irwin C. Alter and Jerry A. Schulman, both of Alter & Weiss, and Morton Siegel, both of Chicago, for appellant.

George B. Collins, of Collins & Amos, of Chicago, for appellee.

Mr. JUSTICE MEJDA delivered the opinion of the court:

Plaintiff, Robert M. Laff, a dentist, brought this action for breach of an alleged contract for royalties for the use of a trade secret. The trial court found that the defendant, John O. Butler Company, had agreed to pay royalties to plaintiff for the use of his formula in manufacturing a dental product. The trial court also found that the contract was still in effect and entered judgments against defendant, awarding damages to plaintiff for royalties due. Defendant's motion for a new trial was denied and defendant appealed.

On appeal defendant contends that (1) the decision of the trial court was against the manifest weight of the evidence, (2) the trial court committed reversible error in sustaining an objection to a question asking a witness his opinion as to the ownership of the trade secret in question; (3) the trial court improperly refused defendant's offers of additional evidence in post-trial proceedings; (4) the trial court erred in denying defendant's motion

for new trial; and (5) the damages granted plaintiff are excessive. We affirm. The pertinent facts follow.

Plaintiff, a practicing dentist, filed a complaint alleging that he had conducted research and developed a formula, not generally known and amounting to a trade secret, for a disclosant for use in determining the location of plaque on human teeth. Defendant, a corporation which manufactures dental care products for sale to the public and dental profession and which did not then market such a product, entered into an oral agreement with plaintiff in 1961, to allow defendant to use plaintiff's information in manufacturing a disclosant in tablet form. The agreement, as alleged in the complaint, was:

> "Plaintiff would reveal his research, trade secrets, and information to the Defendant so that Defendant could manufacture a disclosing tablet that was useful in preventive dentistry, safe and profitable to sell.
>
> The Defendant would manufacture and sell the Plaintiff's disclosing tablet for an indefinite period of time, and
>
> The Defendant would pay to the Plaintiff five percent (5%) of the sales of said product as a royalty for its use of the product disclosed to it by the Plaintiff, and
>
> The Defendant would have the right to terminate royalty payments only upon its discontinuance of the product and return of all information relating thereto to the Plaintiff."

Plaintiff alleged that production of the "disclosing tablet (known as 'Red-Cote')" began after plaintiff gave defendant his information regarding the tablet and his research.[1] Defendant paid plaintiff royalties from 1962

[1] The terms "disclosing tablet," "the product," "Redcote," "Red-Cote liquid" and "Red-Cote formula" were used interchangeably in the trial court to refer to the formula here in dispute and are similarly used herein.

to December 1972, when defendant informed plaintiff that he would no longer be paid. Plaintiff alleged further that he demanded the return of all materials relating to the product utilizing the formula and also demanded that defendant cease manufacturing the product. Defendant refused plaintiff's demands and plaintiff filed this action.

Defendant's answer alleged that the agreement was for plaintiff's services and was terminated when those services were no longer needed. Defendant denied that plaintiff is the owner of the Red-Cote formula, and claimed that the formula for the disclosing tablet had been developed without plaintiff's assistance and that the agreement between the parties was for plaintiff to assist defendant in further research and in promotion of sales of the final product. Defendant also claimed that the parties had later orally agreed to reduce the amount to be paid by defendant to three percent of the gross sales. Plaintiff, in his reply, specifically denied any agreement to reduce the payment from five percent to three percent.

At the trial, plaintiff testified that his first contacts with the defendant occurred in the 1950's when Emmanuel Tarrson, then the defendant's vice-president and now its president, came to plaintiff's office to demonstrate defendant's dental products. On one visit Tarrson noticed that plaintiff was using a product, which plaintiff said he had invented, to defog his dental hand mirror. Plaintiff and Tarrson entered into an oral agreement that defendant could manufacture the product, later called "Clear Dip," in return for the payment of a five percent royalty to plaintiff. Plaintiff patented the Clear Dip formula in 1962 and is still receiving payments from defendant.

Plaintiff began staining teeth to disclose plaque in 1959 and first discussed the disclosant with Tarrson in 1959 or 1960. Plaintiff said that the solution he was using was messy and caused stains on clothing and that a disclosant in pill form would probably be better. Plaintiff then testified "He [Tarrson] said, 'Well, would you develop it with the same deal that we had with Clear Dip,' which

would be five percent of the gross and I said sure." Plaintiff began his work on the disclosant tablets in early 1961, with defendant supplying plaintiff's ingredients, and plaintiff experimenting with different formulas.

At the time he was working to develop the formula for the disclosant, plaintiff learned that a doctor in Texas, from whom plaintiff had taken a dentistry course, had begun to use a disclosant in wafer form. The doctor's formula used a red dye which was different from the stain-causing dye in the solution plaintiff had originally used. Plaintiff began experimenting with the Texas doctor's red dye adding a blue dye to make the coloring more vivid. He also experimented with flavorings to improve the taste of the formula. In early 1962, after having done all of the testing in his office, plaintiff informed Tarrson that he had found a satisfactory formula. Tarrson and plaintiff discussed packaging and naming the product. Tarrson suggested the name "Red-Cote" and arranged for packaging, while plaintiff developed the instructions for usage that would be printed on the packages. The pills were actually produced by the Savoy Drug Company with whom plaintiff was not involved, and defendant distributed and sold the tablets. Plaintiff tested the final batch before the product went on the market.

The royalty payments began in March 1962, and continued, every month, to December 1972. The check vouchers from the payments which were admitted into evidence, described the payments as "royalties." Occasionally royalties for both Red-Cote and Clear Dip were paid with the same check, but were designated separately. Every year defendant provided plaintiff with a Federal tax form which referred to the payments as royalties. Plaintiff stated he was not required to perform any services in order to receive his payments, nor was he paid while he was developing the formula. Plaintiff periodically tried out new products given to him by Tarrson and also worked on a Red-Cote disclosant liquid in 1972. Plaintiff received no payments for these services other than the regular monthly payments from defendant.

Plaintiff testified that Tarrson did not discuss the two percent reduction in Red-Cote payments with him and he had received no documents relating to the reduction. The payments continued until December 1972 when Tarrson told plaintiff that defendant was terminating payments of all Red-Cote royalties. Plaintiff objected to defendant's action and filed this suit shortly thereafter.

Plaintiff called Tarrson as an adverse witness under section 60 of the Civil Practice Act. (Ill. Rev. Stat. 1975, ch. 110, par. 60.) Tarrson stated that he first learned of the patent of the Clear Dip formula in 1969, seven years after it was patented, but that payments to plaintiff still continue and have never been reduced from the original five percent rate Payments for both Clear Dip and Red-Cote were designated as royalties in defendant's books. Defendant now pays Northwestern University for research and field work formerly done by plaintiff, but those payments are not on a percentage basis as were the payments to plaintiff. Tarrson testified that he had discussed the two percent reduction in Red-Cote payments with plaintiff, but that there is no written record of the reduction. The reduction was not noted on the checks to plaintiff. Tarrson also said he had never published the Red-Cote formula, nor did he ever intend to make it public.

Defendant then called Tarrson as its first witness. Tarrson related that defendant had begun work on developing disclosing tablets in 1958 after hearing about them from one of defendant's sales representatives. Defendant worked with John Cermak of the Savoy Drug Company and in 1961 told plaintiff that they were "working on a disclosing tablet." Savoy Drugs and Tarrson had worked on improving the taste of the tablet between 1958 and 1961 and in 1961 the product was, in Tarrson's estimation, at about 80 percent of the stage at which it was marketable. Tarrson asked plaintiff to do the field testing for the product and offered to pay "a royalty" to plaintiff "to compensate you for your efforts." The agreed amount was five percent of the sales and payments to plaintiff started in 1962, as production of the Red-Cote

disclosant began. According to Tarrson, plaintiff's only work was in conducting taste tests and helping with the wording on the label of the package. Plaintiff had also sent Tarrson a copy of the letter from the Texas dentist who was working on disclosing wafers. Tarrson contacted the doctor to discuss combining their efforts in producing the disclosant. A royalty was offered to the doctor but no deal was made between them.

Tarrson testified that he had discussed the reduction of Red-Cote payments with plaintiff and plaintiff had agreed. He explained the reduction was necessitated by payments to defendant's founder, which amounted to two percent of all of defendant's gross sales. The founder had since died and no more such payments were being made, Tarrson said, but the payments for Red-Cote had not been increased. In 1972, Tarrson informed plaintiff in a phone conversation that all Red-Cote payments to plaintiff would be terminated. Tarrson said that the Red-Cote formula had been changed four to six times since 1962, plaintiff was no longer doing research, and broader testing for the product was needed. Tarrson stated that he had never considered stopping payments on Clear Dip because plaintiff had come to him with the formula.

John Cermak, formerly of Savoy Drugs, next testified that he had met Tarrson in the latter part of the 1950's or early 1960's when Tarrson came to him with an idea for a disclosing tablet that would stain plaque on teeth. The first formulation of the disclosant was in March 1959 and the first production batch was made in February 1962. The trial court sustained plaintiff's objection to a question asking Cermak his opinion as to ownership of the formula and defense counsel did not examine the witness further. On cross-examination Cermak stated he had spoken with plaintiff, but only after a formula had been approved by Tarrson. Cermak stated that there had been formula changes in the product. The "carrier," which serves as a binding agent to hold the tablet together and also assists in dissolving the tablet, had been changed,

Quantitatively the amount of dye had been changed, but this change was caused by the fact that different batches of dye have different strengths, and although the dye "chemically is still the same dye," quantities must be varied to maintain the same qualities.

The trial court also considered the evidence deposition of Barbara DePeyster, who was formerly a detail person for defendant. She had first learned of the idea for disclosing tablets when a Detroit periodontist suggested that tablets would be less messy than the solutions that were then available. This occurred sometime between 1956 and 1958, and Ms. DePeyster made the suggestion to Tarrson in a meeting with him in 1957 or 1958. Ms. DePeyster had made notes of the meeting and references to the disclosing tablet in a notebook, which she had also used in preparation for her testimony. Plaintiff's demand for the notebook was refused at the deposition, and the notebook was not offered into evidence at the trial.

The trial court on September 28, 1976, entered a judgment order which, *inter alia,* found in paragraph B that defendant sells a line of products designed to disclose the presence of dental plaque on teeth which "line of products is called by the trade-name 'Red-Cote' and is sold both as a tablet and in liquid form. This 'Red-Cote' product line is the subject matter of the agreement between the parties." In subsequent paragraphs it further found:

> "C. * * * the royalty to which the parties agreed was five percent (5%) of the gross sales of the 'Red-Cote' product line. * * *
>
> * * *
>
> E. * * * Defendant is still offering and selling the 'Red-Cote' line of products to the public. The 'Red-Cote line now offered and sold is the line of products contemplated by the original agreement between the parties. All of the current sales of the 'Red-Cote' line are included within the agreement of the parties.
>
> * * *

G. The Defendant is liable to the Plaintiff to the extent of five percent (5%) of the gross sales of 'Red-Cote' from March, 1962, until Defendant terminates the production of said product line, by reason of the agreement between the parties. * * *

H. The formula for 'Red-Cote' consists * * * of a combination of dyes, which combination has [since 1962], * * * remained qualitatively consistent. * * *

I. * * * The formula, as commercially used, is a trade secret which belonged to the plaintiff and which Plaintiff disclosed to the Defendant in return for Defendant's agreement to pay Plaintiff five percent (5%) royalty on gross sales of 'Red-Cote'."

The judgment order entered judgment for plaintiff in the amount of $10,296.15 as the balance due on royalties through December 1972. It further ordered that defendant pay "five percent (5%) of the Defendant's gross sales of 'Red-Cote' products, for the period beginning on January 1, 1973, and continuing for so long a time as Defendant sells said 'Red-Cote' products as defined in Paragraph B hereof." The court retained jurisdiction "for the purpose of entering a judgment in a specific sum for the gross sales of 'Red-Cote' during the period of time from January 1, 1973, to the date of this Judgment Order," and declared that the agreement to pay "a royalty of five percent (5%) of the gross sales of the 'Red-Cote' product line is still in full force and effect * * *."

In post-trial proceedings, defendant was granted leave to substitute attorneys and presented a motion for new trial. The motion was supported by a brief to which various exhibits and affidavits were attached, offering evidence on the prior art of disclosing solutions and containing further statements by Cermak and Tarrson. The motion also alleged error in the trial court's findings and in the sustaining of plaintiff's objection to Cermak's testimony. The motion was denied after a hearing. In accordance with the earlier judgment order, judgment was then entered against defendant on January 7, 1977, in

the additional amount of $38,919.07 for the period subsequent to January 1, 1973, resulting in a total judgment of $49,215.22.

Opinion

I.

Defendant first contends that the decision of the trial court was against the manifest weight of the evidence. The trial court's decision included the specific findings that plaintiff was a credible witness, that the Red-Cote formula was a trade secret belonging to the plaintiff, that plaintiff and defendant had entered into an agreement in which the plaintiff was to disclose the formula to defendant in return for the payment of royalties amounting to five percent of the gross sales of Red-Cote products using plaintiff's formula, and that the agreement was still in effect and had never been altered.

• 1, 2 This action is for the construction of an oral agreement between the parties, and where, as here, there are conflicting interpretations of such an agreement, the trial court's constructions will be followed unless it is against the manifest weight of the evidence and an opposite conclusion is clearly warranted. (*Exchange National Bank* v. *Heller* (1975), 26 Ill. App. 3d 675, 325 N.E. 2d 328; *Karris* v. *Woodstock, Inc.,* (1974), 19 Ill. App. 3d 1 312 N.E.2d 426.) The determination that plaintiff was a credible witness whose testimony in all material respects was true was best made by the trial court (*People ex rel. Baylor* v. *Multi-State Inter-Insurance Exchange* (1973), 12 Ill. App. 3d 1058, 299 N.E.2d 482), and we will therefore consider only whether plaintiff's testimony, plus the other evidence adduced at trial, supports the trial court's findings regarding the existence of the trade secret and the construction of the agreement.

• 3 A trade secret is a plan or process, tool, mechanism, compound or informational data which is used by a person in his business operations and is known only to

him and such limited others to whom it may be necessary to confide it. (*Schulenburg* v. *Signatrol, Inc.* (1965) 33 Ill. 2d 379, 212 N.E.2d 865; *Victor Chemical Works* v. *Iliff* (1921), 299 Ill. 532, 132 N.E. 806.) There must also be a showing that one's "creative faculties" were used in developing the secret. (*Victor,* 299 Ill. 532, 517.) The mere distillation of general knowledge which is common to a particular trade is not sufficient. *Bimba Mfg. Co.* v. *Starz Cylinder Co.* (1969), 119 Ill. App. 2d 251, 256 N.E.2d 357.

The evidence shows that plaintiff began working on developing the disclosant tablet in early 1961 following discussions with Tarrson in which, after Tarrson had seen plaintiff use a liquid disclosant, plaintiff told Tarrson that a pill form of disclosant would be better than the stain-causing liquid. Defendant supplied plaintiff with ingredients, but plaintiff did the experimentation with different formulas, using different red dyes, adding a blue dye to make the color more vibrant, and testing flavors to make the disclosant taste better. The pills themselves were produced by Savoy Drugs, and neither plaintiff nor defendant have ever otherwise disclosed the formula. At the time the formula was developed, although disclosants were in use in the dental profession, no tablet-form disclosant had been produced and no such use of blue dye combined with red had been made to improve coloration.

Defendant maintains, however, that there was no understanding of confidentiality between the parties and that plaintiff was not the originator of the formula. Both parties clearly considered the formula a secret. Tarrson testified that he had never publicized the formula and had no intention of doing so, and plaintiff has never made any disclosure of the formula other than to Tarrson. Defendant argues that plaintiff had once considered publishing an article about the Red-Cote formula and that, because plaintiff had necessarily published his Clear Dip formula in obtaining a patent for it, plaintiff would have filed for a patent for the Red-Cote formula had he considered it patentable. These arguments are totally devoid

of merit. Disclosure of one product is not disclosure of the other, and mere speculation that plaintiff may disclose his formula cannot eradicate the fact that the actions of both parties clearly indicated that they have treated the formula as a secret from the outset.

• 4 Defendant's claim that it was the creator of the Red-Cote formula is supported by its interpretation of the testimony of Tarrson, Cermak, and Ms. DePeyster, and by a discussion of documentary matters which were not in evidence. Although defendant's witnesses claim that the initial work on the formula was done by defendant using the services of Cermak, no documentary evidence was produced at trial in support of those claims. The trial court had before it only the live testimony of Tarrson and Cermak and the evidence deposition of Ms. DePeyster in which her source of documentation was specifically requested but refused. The plaintiff having established the elements of the trade secret in presenting his case, the burden was on defendant to show the contrary. Since defendant produced no documents to corroborate the statements of its witnesses, the trial court necessarily had to base its decision as to the existence of the trade secret upon the credibility of the witnesses it observed and the testimony they presented. The trial court believed plaintiff and we cannot say it was error for it to do so. We therefore conclude that the trial court's finding that the Red-Cote formula was a trade secret owned by plaintiff was not against the manifest weight of the evidence.

• 5 The trial court further found that the agreement between the parties was for defendant's use of the formula for which it was to pay plaintiff five percent of the gross sales of Red-Cote products. Defendant maintains that the agreement was for plaintiff's services in developing the Red-Cote formula and that payment stopped when the services were no longer provided by plaintiff. The primary purpose of construing any contract is to give effect to the intent of the parties. (*Schek* v. *Chicago*

Transit Authority (1969), 42 Ill. 2d 362, 247 N.E.2d 886.) Where the forms of the contract are not clear or where there is an oral contract, the construction which the parties themselves give to the contract, as evidenced through their actions, will be considered by the trial court in construing the contract. (*Chicago & North Western Ry. Co.* v. *Peoria & Pekin Union Ry. Co.* (1977), 46 Ill. App. 3d 95, 360 N.E.2d 404.) The evidence clearly supports the trial court's construction of the agreement in question.

Plaintiff's testimony was that the Red-Cote formula agreement was to be the same as the agreement for the Clear Dip solution. The parties do not dispute the nature of the Clear Dip agreement; plaintiff disclosed his formula and research information to defendant to enable it to produce the Clear Dip, and defendant in turn paid plaintiff five percent of the gross sales of Clear Dip. The payments for Clear Dip began in the 1950's, when it was first produced, and have continued at the same rate, without interruption, since that time. Plaintiff received no payments before the product was marketed, and received five percent of Clear Dip's gross sales regardless of whether or not he did any additional work on the solution. Although Clear Dip was patented in 1962, defendants have continued to produce it, and have continued to pay plaintiff royalties.

The conduct of the parties indicates that the Red-Cote formula agreement was the same as that for Clear Dip. Plaintiff received no payments from defendant until 1962, when the Red-Cote disclosant was first placed on the market, although his work on developing the formula began before that. The payments under the Red-Cote formula agreement were initially at the rate of five percent of the gross sales, and even when defendant had reduced the payments, they were still based on gross sales. Plaintiff regularly received payments for the Red-Cote formula until 1972, whether or not he worked further on the product. Furthermore, although defendant claims

that the "services" formerly provided by plaintiff are now being performed by Northwestern University. Northwestern is not paid on a percentage basis as plaintiff was, and it appears from the record that plaintiff's activities with regard to Red-Cote have not changed since the cessation of payments.

• 6, 7 Defendant's records support plaintiff's contention that the payments were royalties. Defendant's records designated the payments to plaintiff as "royalties," and the checks for those payments, entered as evidence, identify the payments as "royalties" and contain an itemization of the amounts for both Clear Dip and Red-Cote. Moreover, defendant stipulated at trial that the payments for Red-Cote and Clear Dip were "in the nature of royalties." In construing a stipulation, the words used must be given their natural and ordinary meaning. (*People* v. *Joe* (1964), 31 Ill. 2d 220, 201 N.E.2d 416; *ITT Abrasive Products Co.* v. *Lewis* (1973), 12 Ill. App. 3d 83, 298 N.E.2d 242.) The commonly accepted meaning of a royalty is that it is a payment made to an inventor for the use of his invention, based on a portion of the money received by the user in the course of the sale of the invention. (*Cf.* 77 C.J.S. *Royalty or Royalties* (1952).) The trial court accepted the ordinary meaning of the word "royalty" in accepting defendant's stipulation. The evidence shows that plaintiff also accepted the ordinary meaning of the word as it was regularly used by the defendant. Therefore, it was not error for the trial court to conclude that the payments were royalties paid for the use of plaintiff's formula.

• 8 The trial court also found that there was no agreement to reduce the royalties from five percent of the gross Red-Cote sales to three percent. Plaintiff claimed that there was no agreement to reduce the royalties and there was nothing presented by defendant to support its position to the contrary. No written communication had been sent to plaintiff informing him of the change, nor was there any notation on the checks sent to plaintiff.

Although defendant claimed the reduction was necessitated by payments made to the founder of the company, no such reduction was made in the Clear Dip royalties and the Red-Cote payments were never restored to their original amount when the payments to defendant's founder were no longer required. The question of the challenged reduction in royalties thus became another question of the credibility of plaintiff and Tarrson, and the trial court's findings that plaintiff was the credible witness and there had been no agreed change in the rate of royalties were clearly not against the manifest weight of the evidence.

Defendant contends that it is no longer obliged to pay plaintiff because plaintiff was a consultant and his services are no longer required, and because the secrecy of the formula had been destroyed by the manufacture of the product itself and by the fact that the product could have easily been "reverse engineered" by this time. The claim that plaintiff was a consultant is no more than defendant's own interpretation of the facts and is contrary both to the evidence adduced at trial and the conclusion of the trial court, which we uphold, that the agreement involved was not for plaintiff's services but the use of plaintiff's formula.

• 9 While matters completely disclosed by a product itself cannot be considered a secret (*Cook-Master, Inc.* v. *Nicro Steel Products, Inc.* (1950), 339 Ill. App. 519, 90 N.E.2d 657; *American Sign & Indicator Corp.* v. *Schulenburg* (E.D. Ill. 1958), 167 F. Supp. 20, *aff'd* (7th Cir. 1959), 267 F.2d 388), no such disclosure was made by the manufacture of the tablets and liquids using plaintiff's formula. The only matter made known by the products themselves was their form. The identification of the kinds and quantities of the dyes, flavorings and other components, could only be made through a chemical analysis of the products.

The gist of defendant's "reverse engineering" argument is that its obligation under the contract is limited to the

length of time which the formula remains secret. Reverse engineering is the process by which a product is analyzed and its formula discovered. What defendant maintains, in essence, is that the Red-Cote formula is easily discoverable through reverse engineering, the formula could have been discovered by now, and plaintiff therefore should no longer be entitled to compensation for use of a formula which is not really a "secret."

The concept of reverse engineering has never been applied in Illinois to limit the terms of a contract for the use of a trade secret. Actions based on trade secrets generally fall into three categories. The first involves actions sounding in tort for the protection of the owner of a trade secret from the unlawful appropriation of a trade secret. These actions recognize that a trade secret is open to anyone, not bound by a confidential relationship or a contract with the secret's owner, who can discover the secret through lawful means. (*See, e.g., Bimba Mfg. Co.* v. *Starz Cylinder Co.* (1969), 119 Ill. App. 2d 251, 256 N.E.2d 357; *Smith* v. *Dravo Corp.* (7th Cir. 1956), 203 F.2d 369.) The second category involves actions brought by employers against employees to prevent disclosure of trade secrets made known to the employees in the course of their employment. (See, *e.g., ILG Industries, Inc.* v. *Scott* (1971), 49 Ill. 2d 88, 273 N.E.2d 696. *Schulenburg* v. *Signatrol, Inc.* (1965), 33 Ill.2d 379, 212 N.E.2d 865.) Such actions are based upon either a confidential relationship between employer and employee, or on a restrictive covenant in an employment contract. It is in these first two categories of cases that reverse engineering has been applied, the rationale being that once a trade secret has legitimately become public, there is no longer an interest of the owner or employer which can be protected.

The third category of cases involves actions based on a contract for the use of a trade secret. *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.* (S.D. N.Y. 1959), 178 F. Supp. 655, *aff'd* (2d Cir. 1960), 280 F.2d

197, involved the interpretation of a written contract for the payment of royalties for the use of a trade secret formula in the manufacture and sale of Listerine. Although the formula involved had long been made known, the court held the obligation to pay the royalties to still be in effect. The court noted that the publication of the formula had not been through the acts of any of the parties and that the parties clearly intended that the payments continue so long as the formula was used.

• 10 We find *Warner-Lambert* to be persuasive in the instant case. Although we are concerned here with an oral contract, the intent of the parties and terms of the contract have been construed by the trial court. One of the elements of that contract is the length of time in which it is to be in effect, and we affirm the trial court's finding that the obligation for defendant to pay remains in effect so long as it manufactures any disclosant product using plaintiff's formula.

Defendant maintains, however, that *Warner-Lambert* has been eroded by the holding in *Lear, Inc.* v. *Adkins* (1969), 395 U.S. 653, 23 L. Ed. 2d 610, 89 S. Ct. 1902. *Lear* involved a claim for contractual royalties of a patented product. After holding that payments of royalties accruing after a patent is issued may be avoided if the patent is proven invalid, the court went on to say:

> "[W]e should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas." 395 U.S. 653, 675, 23 L. Ed. 2d 610, 625, 89 S. Ct. 1902, 1913.

The Supreme Court has not yet spoken to the issue it reserved in *Lear*.

• 11 Defendant further maintains that, because an oral contract is here involved, the length of time of the contract should not be established under the principles of *Warner-Lambert*. Instead, defendant argues, the agreement between the parties should terminate after a reason-

able time, and that reasonable time has arrived because defendant has ceased to receive anything of benefit from plaintiff. This is clearly not so. Defendant still markets the Red-Cote disclosants which use plaintiff's' formula, and it is highly unlikely that defendant would continue to do so if it were not profitable. Defendant merely states that it has "lost its headstart advantage" because there are now competing products on the market. However, to allow the termination of the contract because of competition when there is no evidence that the parties so intended would set a dangerous precedent, indeed.

Where, as here, the intent of the parties is to enter into a contract for the use of a trade secret in return for the payment of royalties, the obligation to pay royalties will continue as long as the formula is used, unless the parties otherwise specify. The fact that the secret has been disclosed through legal means, including reverse engineering, will not avoid the effect of such a contract so long as disclosure of the secret was through no fault of the parties involved. We conclude, therefore, that the finding of the trial court that the contract remains in force is not against the manifest weight of the evidence.

II.

Defendant next contends that the trial court erred in disallowing Cermak's testimony as to his opinion of the ownership of the Red-Cote formula and that defendant was thus precluded from pursuing that subject. The following is the ruling in question:

> "Q. [By defendant's counsel to Cermak]: Will you tell the court in your opinion who the owner of the formula is?
> [Attorney for plaintiff]: Object.
> The Court: Sustained.
> [Attorney for defendant]: No further examination."

The above colloquy concluded the direct examination of the witness. Redirect followed cross-examination by plain-

tiff, but it did not go to the question of ownership of the formula. At no time was any offer of proof made concerning Cermak's possible testimony.

• 12 Defendant maintains that the trial court's ruling prevented Cermak from testifying fully to the detailed development of the Red-Cote formula. It has long been recognized that a witness may not testify as to his opinion of the ultimate issue in a case. (*Cf. Armstrong Paint & Varnish Works* v. *Continetnal Can Co.* (1923), 308 Ill. 242, 139 N.E. 395, *Commissioners of Big Lake Special Drainage District* v. *Commissioners of Highways* (1902), 199 Ill. 132, 64 N.E. 1094.) The question put to Cermak regarded his opinion of the ownership of the formula and was therefore not properly a matter for opinion testimony. Moreover, the testimony would not have been allowed even if Cermak had been accepted as an expert witness, because Cermak's expertise was not in the area of questions of ownership, but in the area of development of chemical formulas. Cermak was prevented from testifying as to specific facts regarding the development of the Red-Cote formula only by defense counsel's termination of direct examination and not by the trial court's ruling. We thus conclude that the trial court's' ruling regarding Cermak's testimony was not error.

III.

Defendant next contends that the trial court improperly refused defendant's offers of additional evidence. The evidence was first offered in conjunction with defendant's motion for new trial, which was filed after the trial court had entered the initial judgment for plaintiff and before the final amount of the January 7, 1977, judgment was determined. Defendant argues that the evidence should have been admitted because it pertained directly to the issue of damages.

Included in the evidence were numerous periodicals containing information on the prior art of disclosants. The periodicals were dental journals containing articles

about disclosing solutions, some of them predating plaintiff's work on the disclosing tablet. The solutions described in the various articles are, in some instances, made of more than one dye. One disclosant is in wafer form. None of the articles contains a description of a disclosant using any combination of plaintiff's ingredients, and no two-dye combinations in tablet form were developed before plaintiff's disclosant.

There was also information offered on patents of dental disclosing products, either for detection of oral acidity or for disclosing plaque. The patents were dated as early as 1914, and as late as 1975. None of the patents involved plaintiff's formula.

In addition to the documentary evidence pertaining to the development of disclosants, the offered evidence included affidavits of Cermak and Tarrson, and the notebook of Ms. DePeyster. Cermak's affidavit stated that he had developed the Red-Cote formula and that he had evidence with him at trial to support his claim. That supporting evidence was a sheet of note paper on which certain formula information was written, and appears to show something approaching the final formula. At the bottom of the paper, written with a different colored pen is the date "3/5/59." The paper was unlike the card files and special form for the master formulas that, according to Cermak's' trial testimony, were used by his company in recording the development of product formulas. Furthermore, Cermak's affidavit states that the note paper was used in a discussion with a Mr. Sterba about price quotations and that the 1959 date was on the paper at the time. However, Cermak's statement does not disclose that he had seen anyone write on the paper and it provides no other information about whose writing appears on the paper. The affidavit states only that Cermak relied on the note paper to recall the date of a meeting regarding tablet disclosants. It also states that he had discussed the evidence of his claimed discovery with defense counsel before trial. Tarrson's affidavit covered the same subject

matter as did his trial testimony, although his affidavit contained some additional detail. Both affidavits were in question-and-answer form, but did not include any cross-examination by plaintiff's counsel, who was not notified that the statements would be taken. Ms. DePeyster's notebook, which defendant had previously refused to produce, contained a long list of written notations, one of which read: "Dise Solu—Dr. B." The notebook consists of loose-leaf sheets in a small ring binder and contains neither a date nor any indication that the notes were made at a meeting.

None of the additional evidence offered by defendant was necessary for determining the amount of damages. The measure of damages in an action for a breach of contract is the amount needed to put the parties in the same position they would have been had the contract been performed. (*Rankin* v. *Hojka* (1976), 42 Ill. App. 3d 440, 355 N.E.2d 768. The trial court assessed damages based upon the five percent rate it found to be a term of the contract, Although a final judgment amount had not been established at the time defendant offered the additional evidence, the trial court had set the measure of damages and all that remained was for defendant to provide the court with its gross sales figures for the time in question. Defendant's offers of evidence are based on the "reverse engineering" theory which the trial court found, and we have agreed, is inapplicable in this case.

• 13 Nor can we say that the evidence offered required the trial court to reopen the proceedings and hear the evidence. The decision to introduce new evidence in a case is within the trial court's discretion, and where the evidence would not materially affect the outcome of the case, it is not error for the trial court to refuse to allow it. (*Exchange National Bank* v. *Heller* (1975), 26 Ill. App. 3d 675, 325 N.E.2d 328.) The evidence offered by defendant does not require a finding for the defendant. None of the documentary evidence of the development of disclosants shows that plaintiff's formula was used

or developed by others. The only evidence of any work by defendant occurring before plaintiff's work is found in the handwritten note paper mentioned above. All of defendant's laboratory documents are dated after plaintiff's work began. The statements of Cermak and Tarrson, while adding support to defendant's case, do not necessitate a finding in defendant's favor.

• 14 Furthermore, in determining whether or not to allow additional evidence, the trial court may also consider the diligence exercised by the offering party and whether or not the evidence is newly discovered. (*Exchange National Bank* v. *Heller.*) In the instant case, the publications, by defendant's own admission, were available at the time of trial. Both Cermak and Tarrson testified, and Cermak at the time of trial had the supporting documents for his claim to discovery of the Red-Cote formula. Defendant had the opportunity to present the evidence at trial but did not do so. Upon consideration of the facts surrounding the conduct of the trial, the trial court did not err in refusing to reopen the proceedings and to accept defendant's offers of additional evidence.

IV.

Defendant further contends that it was error for the trial court to deny its motion for new trial. As grounds for the motion, defendant maintains that the findings of the trial court were against the manifest weight of the evidence, that it was error to exclude Cermak's testimony, and that the evidence offered in the post-trial proceedings compelled a decision in defendant's favor. We have already discussed at length the foregoing three grounds and need not discuss them again here. We will therefore now consider only the last ground for the motion, that defendant's trial counsel was "less than competent" in presenting evidence in defendant's case.

• 15 It has long been the rule that the actions of an attorney in the conduct and mangement of a case are binding on his client. (*Chicago & Vicinity Hungarian*

Benevolent Society v. *Chicago & Suburb Hungarian Aid Society* (1918), 283 Ill. 99, 118 N.E. 1012; *Bergman* v. *Rhodes* (1929), 334 Ill. 137, 165 N.E. 598, 65 A.L.R. 344.) It is equally established that even negligence of counsel is not sufficient to warrant a new trial. (*Yates* v. *Monroe* (1851), 13 Ill. 212.) Defendant's sole claims regarding its trial counsel's conduct pertain to the alleged failure to raise certain matters and to offer certain evidence at trial. At no time during the trial, however, did defendant indicate to the court that it felt trial counsel to be inadequate in presenting the case. Furthermore, as we have previously concluded, the evidence offered in the post-trial proceedings was available to defendant during the trial and does not compel a result opposite to the one reached by the trial court. Defendant has made no other specific claims as to trial counsel's "less than competent" handling of the case. Where a party has appeared, filed pleas, introduced evidence and had a trial, the mere fact that the party's attorney's judgment of the case does not coincide with the court's judgment will not support a request for a new trial. (*Winchester* v. *Grosvenor* (1868), 48 Ill. 517.) Defendant has made no showing that trial counsel's conduct was due to any cause other than trial tactics with which defendant now disagrees.

Defendant also argues that plaintiff's version of the Red-Cote oral agreement should not have been "favored" by the trial court, because both parties were represented by the same patent counsel at "critical times." The argument was first raised in the brief submitted to the trial court in support of defendant's motion for new trial. We find this contention to be totally devoid of merit. The "critical times" to which defendant refers pertains to the Clear Dip patent, which is not an issue in this case. Moreover, although defendant emphasizes that no allegation of wrongdoing on the part of plaintiff's patent counsel is to be implied from this argument, the argument does nothing more than to arouse suspicions regarding plaintiff's counsel that are irrelevant, unfounded, and unsupported by any specific claims.

The granting or denial of a motion for new trial is within the sound discretion of the trial court and its decision will not be disturbed unless it has abused that discretion. (*City of Chicago* v. *Chicago Title & Trust Co.* (1928), 331 Ill. 322, 163 N.E. 17; *Bauer* v. *Timucci* (1975), 33 Ill. App. 3d 1051, 339 N.E.2d 434.) Defendant has failed to show that the trial court abused its discretion and we therefore find that defendant's motion for new trial was properly denied.

V.

• 16 Turning to defendant's contention that the damages awarded plaintiff were excessive, we note that we have discussed the damages issue in deciding whether or not the additional evidence should have been allowed. We need only repeat here that the damages awarded were based upon the terms of the contract and were therefore not excessive.

VI

Finally, defendant in its petition for rehearing to this court contends that an affirmance of the trial court's judgment in its present form obligates defendant to pay plaintiff for the manufacture or sale of any disclosant under the "Red-Cote" trademark, whether or not plaintiff's formula is used. Defendant argues that the judgment order adversely affects its property rights to the trademark. Although the point is properly considered waived because raised here for the first time (*Snow* v. *Dixon* (1977), 66 Ill. 2d 443, 362 N.E.2d 1052; *D. Nelsen & Sons, Inc.* v. *General American Development Corp.* (1977), 51 Ill. App. 3d 62, 366 N.E.2d 381), we will consider it in the interests of justice and judicial economy.

The September 28, 1976, judgment order in its findings expressly states that defendant sells a line of products called by the trade name "Red-Cote," both as a tablet and in liquid form designed to disclose the presence of dental plaque on teeth. "This 'Red-Cote' product line is the subject-matter of the agreement between the par-

ties." "The 'Red-Cote' line now offered and sold is the line of products contemplated by the original agreement between the parties: All of the current sales of the 'Red-Cote' line are included within the agreement between the parties." The judgment order also states that the formula is a trade secret which belongs to the plaintiff and which plaintiff disclosed to the defendant in return for the agreement to pay royalties; and that the formula consists of a combination of dyes which has remained qualitatively consistent since the first production in 1962.

• 17, 18 The record and the judgment order clearly indicate that the term "Red-Cote" was employed only to identify the line of products within the agreement. All of the current sales of the 'Red-Cote" line of products are included. The only products that have been manufactured and sold by defendant under the Red-Cote name are the disclosant products using plaintiff's formula. However, it is very possible that in the future other products which do not use plaintiff's formula could be offered and sold by defendant under the same name. Similarly, defendant could offer and sell a line of products using the formula under a different name. Such variations do not change the subject matter of the agreement, namely, the line of products sold by defendant designed to disclose the presence of dental plaque on teeth, both in tablet and liquid form, and using plaintiff's formula, regardless of the trade name or trademark, if any, under which the product may be sold. The issue of defendant's property rights in the trade name "Red-Cote" or its use with other products not using plaintiff's formula was not before the trial court and is not before this court for determination.

Consistent with the foregoing and pursuant to Supreme Court Rule 366(a) (Ill. Rev. Stat. 1977, ch. 110A, par. 366(a)), paragraphs 2 and 4 of the September 28, 1976, judgment order are amended to read:

"2. The Defendant shall pay to the Plaintiff, and is liable to the Plaintiff for a sum equal to five per-

cent (5%) of the Defendant's gross sale of a line of products using Plaintiff's formula,[2] for the period beginning on January 1, 1973, and contiuning for so long a time as the Defendant sells said line of products,[3] as defined in Paragraph B hereof, using Plaintiff's formula, and regardless of the trade name used, if any.[4]

"4. The Court declares that the agreement between the parties made in 1962 by which the Defendant agreed to pay to the Plaintiff a royalty of five percent (5%) of the gross sales of the disclosure product line using Plaintiff's formula[5] is still in full force and effect, and that said agreement, by the usage of the parties, is found to provide that said payments be made on a monthly basis, in accord with the monthly gross volume of business in said product line."

For the reasons stated, the judgment order of September 28, 1976, as here amended, and the judgment entered January 7, 1977, are affirmed.

Judgment order amended and affirmed as amended; judgment affirmed.

SULLIVAN, *P.J.*, and LORENZ, *J.*, concur.

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[2] Words "a line of products using Plaintiff's formula" subsituted for "Red-Cote" line.

[3] Words "line of" substituted for "'Red-Cote' line."

[4] Words "using Plaintiff's formula, and regardless of the trade name used, if any added.

[5] Words "disclosant product line using Plaintiff's formula" substituted for 'Red-Cote' line.

SUPPLEMENTAL OPINION ON DENIAL OF REHEARING

Mr. Justice Mejda delivered the opinion of the court:

Defendant in the petition for rehearing and by a separate motion moved to stay the entry of our final ruling in this case pending the decision of the United States Supreme Court in the case of *Quick Point Pencil Co.* v. *Aronson* (E.D. Mo. 1976), 425 F. Supp. 600, *rev'd* (8th Cir. 1977), 567 F.2d 757, *cert. granted* (1978), 436 U.S. 943, 56 L. Ed. 2d 784, 98 S. Ct. 2843. We find no authority, nor has defendant cited any, that would justify a delay in entry of judgment. Although Supreme Court Rule 368 (Ill. Rev. Stat. 1977, ch. 110A, par. 368) does provide for a stay of judgment in certain circumstances, those circumstances invariably involve further review of the case in which the stay is sought. Mindful of the general principle that we must decide cases according to the law as it exists at the time our decision is rendered (see, generally, *Rios* v. *Jones* (1976), 63 Ill. 2d 488, 348 N.E.2d 825; *Merlo* v. *Johnston City and Big Muddy Coal and Mining Co.* (1913), 258 Ill. 328, 101 N.E. 525; 3 Ill. L. & Prac. *Appeal and Error* §895 (1953)), we will not attempt to expand our power to stay judgments in order to allow speculation as to the development of the law in related cases. Nonetheless, some comment on *Quick Point* is appropriate.

Quick Point involved a contract providing for payment of a royalty to an inventor by a manufacturer who was given an exclusive license to manufacture the inventor's keyholder. A patent application was pending when the agreement was made, and the royalty was to be reduced if a patent did not issue. The invention was never patented, and the manufacturer sought to avoid payment of royalties. The trial court held the contract to still be in force. The court of appeals reversed, reasoning that patent law protection was originally sought by the inventor and thus patent law principles were applicable. Those principles required that although the contract was

not expressly conditioned on the issuance of a patent, the protection afforded the unpatented invention could not exceed that which was available to a patented invention.

Unlike *Quick Point*, no patent or patent application is involved here. In *Quick Point* the court pointed out: "Not only did Aronson [the inventor] not rely on trade secret protection, it is doubtful that her keyholder would have been entitled to any such protection." (567 F.2d 757, 761.) Plaintiff in the instant case relied solely on Illinois trade secret protection.

• 19 Our decision in this case is consistent with the pronouncement of the United States Supreme Court in *Kewanee Oil Co.* v. *Bicron Corp* (1974), 416 U.S. 470, 40 L. Ed. 2d 315, 94 S. Ct. 1879 In holding that Federal patent law does not preempt State trade secret law, the court recognized that Federal patent and the State trade secret law have coexisted for over 100 years and stated: "Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets." 416 U.S. 470, 493, 40 L.Ed. 2d 315, 332, 94 S. Ct. 1879, 1892.

• 20 We find no conflict between our decision in the instant case and the principles of patent and trade secret law expressed to date by the Supreme Court. Our application of these principles to the instant case will not be changed by a decision in *Quick Point* which involves the inventor's reliance on Federal patent law from the outset of the contractual relationship.

Accordingly, we find no cause to postpone final ruling and we adhere to our modified opinion delivered on denial of appellant's petition for rehearing. The motion to stay final ruling is therefore denied.

Motion denied.

SULLIVAN, P.J., and LORENZ, J., concur.

In The

APPELLATE COURT OF ILLINOIS

First District

ROBERT M. LAFF,

Plaintiff-Appellee,

v.

JOHN O. BUTLER COMPANY,

Defendant-Appellant.

No. 77-567

ORDER

(Filed March 9, 1978)

Defendant's Petition for Rehearing or, in the Alternative, for Clarification of Modified Opinion, is denied.

/s/ John J. Sullivan
John J. Sullivan
Presiding Justice

/s/ Francis S. Lorenz,
Francis S. Lorenz, Justice

/s/ James J. Mejda
James J. Mejda, Justice

Dated: November 9, 1978.

State of Illinois)
) SS.
County of Cook)

In The

CIRCUIT COURT OF COOK COUNTY, ILLINOIS

County Department, Law Division

ROBERT M. LAFF,

Plaintiff,

vs.

JOHN O. BUTLER COMPANY,
a Corporation,

Defendant.

NO. 73 L 5013

FINAL JUDGMENT ORDER

Comes on this cause for trial on the complaint of the Plaintiff, the answer of the Defendant, and the reply of the Plaintiff to said answer, and the Court having heard the testimony of the witnesses called by the parties, having considered the exhibits and the deposition received into evidence having considered answers to interrogatories filed by the Defendant insofar as said answers have been received in evidence, and having heard and considered the arguments of counsel, and being advised in the premises;

DOTH FIND:

A. The Plaintiff, ROBERT M. LAFF, was a credible witness in his own behalf, and his testimony is, in all material respects, true.

B. The Defendant sells a line of products designed to disclose the presence of "dental plaque" on the teeth of users. The purpose of such disclosure is to allow the user to observe the location of the plaque, so as to avoid tooth decay. This line of products is called by the trade name "Red-Cote," and is sold both as a tablet and in liquid form. This "Red-Cote" product line is the subject matter of the agreement between the parties.

C. The President of the Defendant, Emanuel Tarrson, admitted that he had an agreement to pay royalties to the Plaintiff, made on behalf of the corporate defendant at a time when he had both actual and apparent authority to make such an agreement; he further admitted that the royalty to which the parties agreed was five percent (5%) of the gross sales of the "Red-Cote" product line. This agreement was made sometime in 1961 or early 1962.

D. The Defendant paid the Plaintiff royalties on the "Red-Cote" line from March, 1962, through the end of December, 1972. The actions of the parties in paying and receiving moneys designated as "royalties" over that period of time demonstrates to the Court that there was, and is, an agreement to pay royalties to the Plaintiff made by the Defendant and referring to the "Red-Cote" line of products.

E. It is undisputed that the Defendant is still offering and selling the "Red-Cote" line of products to the public. The "Red-Cote" line now offered and sold is the line of products contemplated by the original agreement between the parties. All of the current sales of the "Red-Cote" line are included within the agreement between the parties.

F. The original royalty to be paid on "Red-Cote" was five percent (5%). The Court finds that no change in that agreement has ever been made. The conflict in testimony on the question of whether or not the amount of royalty to be paid was reduced from five percent (5%) to three percent (3%) of gross sales is resolved in favor of the Plaintiff. The Defendant is, therefore, liable to the Plaintiff for the difference between the five percent rate and the three percent rate from May, 1963, to the date of the termination of all payments in December, 1972. Said difference is found to be $10,296.15. (Interrogatory to Defendant No. 15(b).

G. The Defendant is liable to the Plaintiff to the extent of five percent (5%) of the gross sales of "Red-Cote" from March, 1962, until Defendant terminates the

production of said product line, by reason of the agreement between the parties. Defendant has paid said liability in full through March, 1963, and the judgment entered herein in the sum of $10,296.15 is the amount of the balance owed by the Defendant through December, 1972. The Defendant remains liable, at the rate of five percent (5%) of gross sales, on all sales made after the end of December, 1972.

H. The Formula for "Red-Cote" consists, as to active ingredients, of a combination of dyes, which combination has, through the years since the first production in 1962, remained qualitatively consistent. Such changes in formula as having been made quantitative, so as to achieve the same result from dye ingredients having different levels of potency.

I. The witness Tarrson testified, for the Defendant, that he asked the Plaintiff to assist in work on the "Red-Cote" tablet at a time when it was not in a marketable state of development. The Plaintiff testified that he developed the "Red-Cote" formula, which was made into tablets through the Savoy Drug Company. Neither the Plaintiff nor the Defendant has ever made the formula public and both have treated the formula as a trade secret. The formula, as commercially used, is a trade secret which belonged to the Plaintiff and which Plaintiff disclosed to the Defendant in return for Defendant's agreement to pay Plaintiff five percent (5%) royalty on gross sales of "Red-Cote."

J. The Plaintiff has proven the allegations of the complaint.

NOW, THEREFORE, upon the findings made in this cause, and being advised in the premises,

IT IS HEREBY ORDERED, ADJUDGED AND DECLARED as follows:

1. Plaintiff, Robert M. Laff, shall have and recover from the Defendant, John O. Butler Company, a Corporation, the sum of Ten Thousand Two Hundred Ninety-Six

Dollars and fifteen cents ($10,296.15), and Judgment is hereby entered against the Defendant and in favor of the Plaintiff in said sum.

2. The Defendant shall pay to the Plaintiff, and is liable to the Plaintiff for a sum equal to five percent (5%) of the Defendant's gross sales of "Red-Cote" products, for the period beginning on January 1, 1973, and continuing for so long a time as the Defendant sells said "Red-Cote" products, as defined in Paragraph B hereof.

3. This Court retains jurisdiction over this cause for the purpose of entering a judgment in a specific sum for the gross sales of "Red-Cote" during the period of time from January 1, 1973, to the date of this Judgment Order.

4. The Court declares that the agreement between the parties made in 1962 by which the Defendant agreed to pay to the Plaintiff a royalty of five percent (5%) of the gross sales of the "Red-Cote" product line is still in full force and effect, and that said agreement, by the usage of the parties, is found to provide that said payments be made on a monthly basis, in accord with the monthly gross volume of business in said product line.

5. The Court finds that there is no just reason to delay the enforcement of or appeal from this order.

6. The Plaintiff shall have Judgment for costs, and the costs herein are fixed at $41.00.

Enter:

Walter J. Kowalski
Judge

Sep 28 1976

Collins & Amos
One North LaSalle Street
Chicago, Illinois 60602

IN

THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, LAW DIVISION

No. 73 L 5013

ROBERT M. LAFF,

Plaintiff,

vs.

JOHN O. BUTLER, CO.,

Defendant.

JUDGMENT ORDER

In accordance with the Order entered in this cause on September 28, 1976, and consistent with paragraphs 3 and 4 thereof,

IT IS HEREBY ORDERED that further judgment in the amount of $38,919.07 be entered for plaintiff, Robert M. Laff, against defendant, John O. Butler Co. Said amount is in addition to the sum of $10,296.15 set forth in paragraph 1 of said judgment, resulting in a total judgment of $49,215.22. The foregoing figures are based on the amount set forth by defendant in a letter to defendant's counsel dated December 15, 1976, a copy of which is herewith presented as Exhibit 1.

IT IS FURTHER ORDERED that bond be set in the amount of $50,000.00 to stay enforcement of the judgment herein pursuant to appeal of the judgment entered herein.

ENTER: /s/ Walter J. Kowalski
Walter J. Kowalski
Judge

Jan 7 1977

Irwin C. Alter
Alter and Weiss
208 S. La Salle St.
Chicago, Ill. 60604
Tel: 337-2100

Morton Siegel
189 W. Madison St.
Chicago, Ill. 60602
Tel: AN 3-6423

December 15, 1976

Alter and Weiss
Suite 510
208 South LaSalle Street
Chicago, IL. 60604

Attn: Mr. Irwin Alter

Dear Irwin,
In accordance with the figures that should form part of the judgment, I am informed by our controller that the amount of the judgment should be $38,919.07 plus $10,-296.15 for a total of $49,215.22.

Sincerely,

JOHN O. BUTLER COMPANY

/s/ E. B. Tarrson
E. B. Tarrson
President

EBT:lc

In The

Supreme Court of the United States

October Term, 1978

No. 78-1935

JOHN O. BUTLER COMPANY,

Petitioner,

vs.

ROBERT M. LAFF,

Respondent.

ANSWER TO PETITION FOR A WRIT OF CERTIORARI TO THE ILLINOIS SUPREME COURT

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

No.

JOHN O. BUTLER COMPANY,

Petitioner,

vs.

ROBERT M. LAFF,

Respondent.

ANSWER TO PETITION FOR A WRIT OF CERTIORARI TO THE ILLINOIS SUPREME COURT

Robert M. Laff, by his attorney, answers the Petition for a Writ of Certiorari as follows:

RESPONSE TO STATEMENT OF THE MANNER IN WHICH FEDERAL QUESTIONS WERE RAISED

No Federal questions were raised prior to or during the trial of this case below. After the trial a final judgment order was ordered (App. 35) which found the Defendant liable to the Plaintiff upon an oral agreement, which the parties had observed for many years. That order did not deal with any Federal issues, none having been then raised. The issue at trial was the credibility of the witnesses.

The final judgment order provided that the Plaintiff be paid a percentage of the sales of the product involved. Upon a representation as to the gross amount of the sales, made by the Defendant, a judgment order for money damages was thereafter entered. (App. 39) That order did not pass upon or deal with any Federal claims.

An appeal followed to the Illinois Appellate Court. No Federal issue was raised in the Appellant's brief in that Court. Their claim was, substantially, that the trial court erred in not granting a new trial upon evidence tendered to the Court after the entry of the final judgment order found at App. 35.

Petitioner states at page 5 of the Petition that Federal issues were raised on oral argument; the undersigned argued the case for the Appellee, and does not recall any Federal argument being made at that time. A copy of the Points and Authorities from Butler's Appellate Court brief is attached as an Appendix to this Answer; no Federal issue was presented to the Court below prior to the Petition for Rehearing. The trial judge had no opportunity to consider the point now being presented to this Court.

ANSWER TO STATEMENT OF THE CASE

As in all lower courts, Petitioner presents a statement of the case as though the findings of the trial judge were of no effect. It was a bench trial, and the trial judge found the facts to be substantially different from the presentation in the statement of the case.

After the trial, and after the entry of the final judgment order at App. 35, Butler Company changed attorneys and presented extensive post-trial materials, consisting of magazine articles, patents, and affidavits of persons who testified at the trial. The substance of the materials presented was that new counsel would have done a better job at the trial than trial counsel, and that trial counsel was incompetent.

The trial court denied the profert of new evidence, because it was all in existence at the time of the trial, and the Illinois Appellate Court gave precise consideration to this issue. (App. 24). The repeated assertions that the trial court refused to receive evidence while the case was still going on are plainly wrong. The trial court had entered a final judgment order at the time the additional evidence was produced, and it was produced in connection with a post-trial motion.

In making its statement of facts, Petitioner mixes the assertions of its post-trial motions with the trial record. This leads to a statement of facts which is misleading. The facts are correctly stated in the opinion of the Appellate Court of Illinois. (App. 1).

REASONS FOR DENYING THE WRIT

In the 1977 Term, this Court "granted certiorari to consider whether federal patent law pre-empts state contract law so as to preclude enforcement of a contract to pay royalities to a patent applicant, on sales of articles embodying the putative invention, for so long as the contracting party sells them, if a patent is not granted." *Aronson v. Quick Point Pencil Co.*, 99 S.Ct. 1096 (1979).

State law legitimately concerns itself with trade secrets. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

The Illinois Appellate Court enforced the agreement between these parties in accordance with the law of the State of Illinois. The Federal contention was precisely considered on petition for rehearing (App. 33), and the Appellate Court, without guidance of *Aronson v. Quick Point*, came to the same result which would have obtained had it had the benefit of this Court's ruling in that case.

The Illinois Appellate Court did rely upon a Federal precedent to some extent; *Warner-Lambert Pharmaceutical Co., Inc. v. Reynolds*, 178 F.Supp. 655 (S.D. N.Y. 1959), affirmed 280 F.2d 197 (2nd Cir. 1960). But that was a diversity case. It was not a statement of Federal law.

Much of Petitioner's brief is misleading; for instance, at App. 20 a reference is made to the extensive post-trial motions; at that point, all that remained to be done was the entry of the money judgment based upon a percentage of sales. In referring to that period of time, Petitioner says "Even though the trial was still going on

. . ., (App. 20); the trial was not still going on; a final order, with an appropriate finding that it was a final order, had been entered at the time. (App. 35, App. 38, par. 5).

Petitioner has made the same misrepresentation below, repeatedly, and it is inappropriate that such a misrepresentation continue to be made after having been called to Petitioner's attention so many times.

CONCLUSION

In its "Conclusion" Petitioner makes, as its final argument, the point that "It is also important where, as here, the parties completely disagreed as to the terms of their oral agreement."

This Court should not concern itself with testimonial disagreement. That is the job of the trial judge. The trial judge did his job in this case, and His Honor, Judge Walter J. Kowalski of Chicago, has been repeatedly affirmed.

For the reasons which we have stated, we submit that this case is not appropriate for review by this Honorable Court, and we ask that the Petition be denied.

Respectfully submitted,

GEORGE B. COLLINS
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Chicago, Illinois 60602
(312) 372-7813
Attorney for Respondent

APPENDIX

POINTS AND AUTHORITIES

I.

THE JUDGMENT ON THE LIABILITY ISSUE IS AGAINST THE PREPONDERANCE OF EVIDENCE.

A.

Laff Neither Carried nor was Required to Carry His Burden of Proof as to the Alleged Existence of any Trade Secret, Its Transmission to Butler, and the Existence of an Agreement of Secrecy Between the Parties.

Bimba Mfg. Co. v. *Starz Cylinder Co.*, 119 Ill. App. 2d 251, 256 N.E. 2d 865 ~~(Ill. Sup. Ct. 1970)~~; (1st Dist 4th Div 1970)

Wesley-Jessen, Inc. v. *Reynolds, et al.*, 182 U.S.P.Q. 135 (N.D. Ill. 1974);

Schulenburg v. *Signatrol, Inc.*, 33 Ill. 2d 379, 212 N.E. 2d 865 (Ill. Sup. Ct. 1965);

Victor Chemical Works v. *Iliff*, 299 Ill. 532, 132 N.E. 806 (Ill. Sup. Ct. 1921);

ILG Industries, Inc. v. *Scott*, 49 Ill. 2d 88, 273 N.E.2d 393 (Ill. Sup. Ct. 1971);

2 Callman, *Unfair Competition, Trademarks and Monopolies*, §53.3(a).

Cook-Master v. *Nicro Steel Products*, 339 Ill. App. 519, 90 N.E. 2d 657 (Ill. App. Ct. 1950);

B.

No Trade Secret Could Exist Where Laff Himself Never Treated or Considered His Alleged Property as a Trade Secret.

Pittsburgh Erie Saw Corp. v. *Southern Saw Service*, 136 F. Supp. 96 (N.D. Ga. 1955), *mod. in part*, 239 F.2d 339 (5th Cir. 1956) *cert. denied*, 353 U.S. 964 (1957).

Canaan Products, Inc. v. *Edward Don & Co.,* 273 F. Supp. 492 (N.D. Ill. 1966), *aff'd* 388 F.2d 540 (7th Cir. 1968);

Goldin v. *R. J. Reynolds Tobacco Co.,* 22 F. Supp. 61 (S.D. N.Y. 1938);

American Sign and Indicator Corp. v. *Schulenburg,* 167 F. Supp. 20 (E.D. Ill. 1958), *aff'd* 267 F.2d 388 (7th Cir. 1959);

Victor Chemical Works v. *Iliff,* 299 Ill. 532, 132 N.E. 806 (Ill. Sup. Ct. 1921).

C.

The Court Erred in Refusing to Allow Cermak to Testify as to the Red-Cote Formula.

Hahn v. *Eastern Illinois Office Equipment Co.,* 42 Ill. App. 3d 29, 355 N.E. 2d 336 (Ill. App. Ct. 1976);

Cunningham v. *Yazoo Manufacturing Co.,* 39 Ill. App. 3d 498, 350 N.E. 2d 514 (Ill. App. Ct. 1976);

Hernandez v. *Power Construction Co.,* 43 Ill. App. 3d 860, 357 N.E. 2d 606 (Ill. App. Ct. 1976);

Mack v. *Davis,* 76 Ill. App. 2d 88, 221 N.E. 2d 121 (Ill. App. Ct. 1966).

D.

Laff Failed to Prove That He Originated the Red-Cote Formula Prior to Butler and that it was Derived from Him by Butler.

Shumaker v. *Paulson,* 136 F.2d 700 (CCPA 1943);

Radio Corporation of America v. *Philco Corp.,* 201 F.Supp. 135 (E.D. Pa. 1961);

Crimmins and Breakfield v. *Reid,* 180 U.S.P.Q. 462 (P.O. Bd. of Int. 1973);

Morse v. *Porter, et al.,* 155 U.S.P.Q. 280 (P.O. Bd. of Int. 1965);

Herrmann v. *Otken,* 201 F.2d 909 (CCPA 1953).

E.

Even Assuming its Existence, Laff's Alleged Trade Secret Would Have Survived for Only a Short Time After Red-Cote was Marketed.

ILG Industries, Inc. v. *Scott,* 49 Ill. 2d 88, 273 N.E. 2d 393 (Ill. Sup. Ct. 1971);

§757 Restatement of Torts;

Smith v. *Dravo Corp.,* 203 F.2d 369 (7th Cir. 1953);

Warner-Lambert Pharm. Co., Inc. v. *John J. Reynolds, Inc.,* 178 F.Supp. 655 (S.D.N.Y. 1959);

Lear, Inc. v. *Adkins,* 395 U.S. 653 (1969);

Bimba Mfg. Co. v. *Starz Cylinder Co.,* 119 Ill. App. 2d 251, 256 N.E.2d 357 (Ill. App. Ct. 1970);

Cook-Master v. *Nicro Steel Products,* 339 Ill. App. 569, 90 N.E.2d 657 (Ill. App. Ct. 1950);

Vandenbergh, "Intellectual Law for the General Counselor," *Illinois Institute for Continuing Legal Education,* 1973.

F.

Butler's Conception of and Work on a Disclosing Tablet Product Clearly Predates any Such Conception by Laff.

Bimba Mfg. Co. v. *Starz Cylinder Co.,* 119 Ill. App. 2d 251, 256 N.E. 2d 357 (Ill. App. Ct. 1970);

Victor Chemical Works v. *Iliff,* 299 Ill. 532, 132 N.E. 806 (Ill. Sup. Ct. 1921).

G.

Laff Clearly Worked as a Consultant for Butler and was Paid Therefor; Calling Such Payment "Royalties" Does Not Change the Character of the Relationship.

Soderquist v. *Glander,* 102 N.E. 2d 465 (Ohio Sup. Ct. 1951);

Wesley-Jessen, Inc. v. *Reynolds, et al.,* 182 U.S.P.Q. 135 (N.D. Ill. 1974).

II.

THE TRIAL COURT ERRED IN FAILING TO GRANT BUTLER'S MOTIONS FOR POST-TRIAL RELIEF AS WELL AS FOR FURTHER EVIDENTIARY PROCEEDINGS.

A.

The Trial Court Abused its Discretion in Refusing To Grant the Relief Requested by Butler.

Illinois Revised Statutes, Ch. 110, § 68.3;

Campo v. *Clark Theater,* 123 Ill. App. 2d 145, 260 N.E.2d 29 (Ill. App. Ct. 1970);

People ex rel. Marilyn Drury v. *Catholic Home Bureau,* 34 Ill. 2d 84, 213 N.E.2d 507 (Ill. Sup. Ct. 1966);

Biel v. *Wolff,* 126 Ill. App. 2d 209, 261 N.E.2d 474 (Ill. App. Ct. 1970);

Heuer v. *Goldberg,* 106 Ill. App. 2d 55, 245 N.E.2d 497 (Ill. App. Ct. 1969);

Torshen, "Illinois Civil Trial Practice," *Illinois Institute for Continuing Legal Education* (1969);

Skiba v. *Ruby,* 113 Ill. App. 2d 170, 251 N.E.2d 771 (Ill. App. Ct. 1969);

Thomas v. *Rossetter,* 339 Ill. App. 647, 91 N.E.2d 155 (Ill. App. Ct. 1950);

Sell v. *Vlahos,* 105 Ill. App. 2d 414, 245 N.E.2d 303 (Ill. App. Ct. 1969);

Masters v. *Central Illinois Electric and Gas Co.,* 7 Ill. App. 2d 348, 129 N.E.2d 586 (Ill. App. Ct. 1955);

Hamas v. *Payne,* 107 Ill. App. 2d 316, 246 N.E.2d 1 (Ill. App. Ct. 1969);

Borries v. *Z. Frank, Inc.,* 73 Ill. App. 2d 128, 219 N.E. 2d 737 (Ill. App. Ct. 1966);

Bauer v. *Timucci,* 33 Ill. App. 3d 1051, 339 N.E. 2d 434 (Ill. App. Ct. 1975);

Goldblatt Bros., Inc. v. *Jorgensen,* 328 Ill. App. 355, 66 N.E.2d 102 (Ill. App. Ct. 1946).

B.

The Trial Court Erred in Failing to Hold That Laff Completely Failed to Carry His Burden of Proof.

American Sign and Indicator Corp. v. *Schulenburg,* 167 F.Supp. 20 (E.D. Ill. 1958); *aff'd* 267 F.2d 388 (7th Cir. 1959);

Wesley-Jessen, Inc. v. *Reynolds, et al.,* 182 U.S.P.Q. 135 (N.D. Ill. 1974);

Travers v. *Wormer,* 13 Ill. App. 39 (Ill. App. Ct. 1883).

C.

The Trial Court Erred In Failing to Admit Testimony and Evidence of Butler's Offers of Proof On the Question of Damages.

Bimba Mfg. Co. v. *Starz Cylinder Co.,* 119 Ill. App. 2d 251, 256 N.E.2d 357 (Ill. App. Ct. 1970);

Schulenburg v. *Signatrol, Inc.*, 33 Ill. 2d 379, 212 N.E.2d 865 (Ill. Sup. Ct. 1965);

ILG Industries, Inc. v. *Scott*, 49 Ill. 2d 88, 273 N.E.2d 393 (Ill. Sup. Ct. 1971);

Wesley-Jessen, Inc. v. *Reynolds, et al.*, 182 U.S.P.Q. 135 (N.D. Ill. 1974);

2 Callmann Unfair Competition, Trademarks, and Monopolies, §53.3(a);

Lear, Inc. v. *Adkins*, 395 U.S. 653 (1969).

III.

LAFF'S UNCORROBORATED VERSION OF THE ALLEGED AGREEMENT SHOULD NOT BE FAVORED WHERE, AT CRITICAL TIMES, BOTH LAFF AND BUTLER WERE REPRESENTED BY THE SAME COUNSEL.

Strong v. *International Building Loan and Investment Union*, 183 Ill. 97 (Ill. Sup. Ct. 1899);

Allstate Insurance Co. v. *Keller*, 17 Ill. App. 2d 44, 149 N.E.2d 482 (Ill. App. Ct. 1958).

No. 78-1935

In the
Supreme Court of the United States
OCTOBER TERM, 1978

JOHN O. BUTLER COMPANY,
Petitioner,
vs.
ROBERT M. LAFF,
Respondent.

REPLY BRIEF FOR THE PETITIONER

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IN THE

SUPREME COURT OF THE UNITED STATES

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No. 78-1935

JOHN O. BUTLER COMPANY,

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vs.

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Respondent.

REPLY BRIEF FOR THE PETITIONER

Respondent predictably argues, in his cursory and superficial Response, that no important issues are raised in the Petition for a Writ of Certiorari.

The effect of the decision below is to set up a principle of law under which the licensor of a purported trade secret may create perpetual liability for a licensee, even while avoiding response to a showing that the trade secret was not, in fact or at law, a trade secret, where no written agreement between the parties calls for this. Such a principle is contrary to earlier holdings of this Court, as set forth in the Petition.

Respondent seriously misleads this Court when stating that the issues raised herein were not properly before

the trial judge. Nowhere does Respondent specifically refute the showing in the Petition for Writ of Certiorari that, indeed, the trial judge and the justices of the Illinois Appellate and Supreme Courts were advised of the federal issues raised herein, had the opportunity to *properly* consider the issues, and failed to do so. Instead, counsel for Respondent relies simply upon his own "recall" to assert that no federal issues were involved during the trial of the present case.

Even more important, there is a serious difference of opinion between Petitioner and Respondent concerning whether the trial in the Circuit Court of Illinois was still going on for the purpose of receiving offers of proof made by Petitioner and considering same to determine a final damage amount.

Petitioner has argued law and facts at each stage of this case to show that the trial had not ended; Respondent has taken a contrary position, but has argued no law or facts to support it. Instead, Respondent accuses Petitioner of deliberately misleading this Court as to the judgment of the trial court. This is a direct misrepresentation, contradicted by the record below, and is nothing more than an attempt by Respondent to exalt form and deny inquiry into substance.

Respondent *admits* that the dollar amount of the judgment was yet to be resolved at the time the offers of proof were made; Petitioner's argument that a just resolution of such amount required consideration of the offers of proof certainly is no misrepresentation, as counsel for Respondent has so accusingly labeled it.

Respondent's references to the judgment order are equally confusing and misleading; the order was a draft,

authored by Respondent and signed by the trial judge while the cause was still in progress. In fact, Respondent should well know that mere words of finality in a purported judgment order are not, in and of themselves, determinative of the finality of the proceedings. *Walters* v. *Mercantile National Bank of Chicago,* 380 Ill. 477, 44 N.E.2d. 429 (1942). See also *Coble* v. *Chicago Health Clubs,* 53 Ill. App.3d. 1019, 369 N.E.2d. 188 (1977); *Chechik* v. *Koletsky,* 305 Ill. 518, 137 N.E. 419 (1922); *Impey* v. *City of Wheaton,* 60 Ill.App.2d. 99, 208 N.E.2d. 419 (2nd Dist. 1965); and *Starnes* v. *Aetna Casualty and Surety Co.,* 503 S.W.2d. 129 (Mo. Ct. App. 1973). Further, as set forth in the Petition for Writ of Certiorari, as well as in all arguments of this case before every tribunal to date, Illinois case law demonstrates that proceedings cannot be considered terminated where matters of substantial controversy remain undetermined between the parties. *Deckard* v. *Joiner,* 44 Ill.2d. 412, 255 N.E.2d. 900 (1970). See also *Strom* v. *Strom,* 13 Ill.App.2d. 354, 142 N.E.2d. 172 (1957).

Based upon this authority, Petitioner has asserted that in reality no final order was entered by the Court relating to damages, and that the trial judge, after ruling on liability, made no order finally determining what the amount of damages was to be. Instead, the trial judge requested and conducted further discovery as to a final damage amount. Evidence as to the allowable damages goes to the very heart of the issues presented in the Petition for Writ of Certiorari, and Respondent has devoted absolutely no text and has cited no authorities in its reply brief to support his contentions.

Choosing to ignore the facts, Respondent argues that no federal questions were presented below, then proceeds

to admit, at page 4 of his brief, that the precise questions at issue were raised in the Illinois Appellate Court. Thus, Respondent concedes that issues relating to inconsistency with other pre-emption cases were raised by Petitioner.

By failing to cite authorities or, most importantly, the record in the present case, Respondent thus admits he cannot support his argument in any adequate legal manner.

Equally misleading is Respondent's statement that the substance of the materials presented in the offers of proof were that new counsel would have done a better job than the original trial counsel. This is no more than a red herring calculated to divert this Court's attention as a substitute for convincing argument.

The substance of the offers of proof was a demonstration that Respondent's alleged trade secret was, in fact, known to the profession, was independently developed by Petitioner prior to any work done by Respondent, and related directly and tellingly to the calculation of damages in the present case. No offer of proof could be more relevant and less dilatory.

It should be noted that, in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470 (1974), this Court affirmed a holding that limited the term of an injunction against use of a trade secret until the secret had been made public by, *inter alia*, a third party. In precisely analogous fashion, proof that Respondent's alleged trade secret had entered the public domain should properly limit damages for its purported use.

With respect to Respondent's gratuitious citation of the authorities listed in Petitioner's brief to the Illinois Appellate Court, said brief has been amply cited in the Petition for Writ of Certiorari, along with Petitioner's earlier filed pleadings (pp. 3-9) and, if it is true that one should not judge a book by its cover, it must also be true that reciting the table of contents is likewise no substitute for the book itself.

In like manner, Respondent's comments as to the statement of facts presented by Petitioner again shed no light on the present case that would be helpful to the Court, but rather is part of Respondent's continuing attempt to demean and trivialize Petitioner's presentation of the important federal questions present here.

As in all previous briefs and arguments submitted by Respondent throughout this litigation, Respondent argues unfounded generalities rather than squarely on the issues. In fact, Respondent's reply brief completely misses the point as to the issues to be resolved by this Court.

An excellent example is Respondent's argument that the Illinois Appellate Court, in relying upon the *Warner-Lambert* decision, did not actually apply a statement of federal law. Respondent presumably makes this argument to somehow demonstrate that no federal questions are raised in the present case, while completely ignoring the fact that the effective result of the actions of the trial court and Appellate Court below was to exceed the guidelines established by this Court in such cases as *Kewanee* and *Sears/Compco*. Respondent is blind to the fact that a state court *can* violate these guidelines without making specific reference to them.

CONCLUSION

We are arguing here about the limitations that the doctrine of federal preemption places upon the individual states when considering actions involving trade secrets. Nothing Respondent has presented has spoken to this point, has presented any material which would be helpful to this Court, or has even acknowledged the importance of this area of the law.

Unresolved preemption problems in this area of law have been taken up on a regular basis by the Supreme Court over many years, amply demonstrating their importance.* Beyond this, it should be noted that the Section of Patent, Trademark and Copyright law of the American Bar Association maintains a sub-committee entitled "Validity of Contracts to Make Contiuing Royalty Payments in Consideration of Disclosure of Trade Secret". *Committee Reports, Section of Patent, Trademark, and Copyright Law, American Bar Association,* pp. 200-201. Such is the continuing concern that exists with respect to the type of agreements here at issue.

We urge this Court to grant certiorari so that the individual states, and concerned practitioners in this area

* *Aronson* v. *Quick Point Pencil Co.,* .... *U.S.* ...., 99 S. Ct. 1096 (1979); *Kewanee Oil Co.* v. *Bicron Corp.,* 416 U.S. 470 (1974); *Lear, Inc.* v. *Adkins,* 395 U.S. 653 (1969); *Brulotte* v. *Thys Co.,* 379 U.S. 29 (1964); *Sears Roebuck & Co.* v. *Stiffel,* 376 U.S. 234 (1964). *Compco Corp.* v. *DayBrite Lighting, Inc.,* 376 U.S. 234 (1964).

of law, will have the benefit of clear guidelines in dealing with agreements concerning alleged proprietary information.

Respectfully submitted,

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